

Which? response to Ofgem consultation

Green supply guidelines: Updated proposals

August 2008

Which? is an independent, not-for-profit consumer organisation with around 700,000 members. Based in the UK, it is the largest consumer organisation in Europe. At EU level we are members of Beuc, the Bureau Européen des Unions de Consommateurs. Entirely independent of government and industry, we actively campaign on behalf of consumers and are funded through the sale of our Which? range of consumer magazines and books.

Which? campaigns on a wide range of issues, and through our work we seek to make individuals as powerful as the organisations they have to deal with in their daily lives. In our response to this consultation, we have drawn on the research and analysis that supports our long-standing interest in developing clear and comparable standards and quality services which are accessible to consumers.

Which? has substantial reservations about the value of these tariffs to consumers. As we set out below, Ofgem's own evidence appears to show that fundamental shortcomings within the energy market prevent these tariffs from working as they could do, to enable consumer demand to encourage large-scale increased investment in renewables. As supply-side constraints are the real obstacle to increased renewable energy, the creation of a market that can genuinely respond to increasing consumer demand for green energy should be addressed with the industry by Ofgem.

We agree with the principle of additionality suggested here, however, considerable amendment of the guidelines and framework for applying this will be required before these tariffs could offer consumers what they expect from a green tariff. We set out our views below in a short overview followed by answers to the specific questions posed.

We would welcome the opportunity to meet with Ofgem following this consultation and discuss these complex proposals in more detail.

Overview

The stated opinion of Ofgem in this consultation indicates that the current range of green tariffs do not enable consumers to influence the renewables market through their purchasing decisions¹. This presents a clear failure of the energy market as it does not respond to consumer demand in this case. In the consultation Ofgem claims that substantial barriers prevent this market from operating effectively, namely uncertainty in the planning system and lack of capacity in the national grid.

This stated market failure appears to undermine the very concept of the green tariff, through which consumers believe they are opting for a less environmentally-damaging source of energy. This is illustrated by Ofgem's own MORI-commissioned research which states that 84% of potential green tariff consumers perceive as 'very valuable' the idea that all the energy in these tariffs should be derived from sustainable sources.² However, it appears that few tariffs genuinely produce benefits to the environment in addition to those already required under Renewable Obligation Certificates (ROCs).

¹ 'We do not believe that encouraging some customers to pay more for 'green electricity' will have a material impact.' *The green supply guidelines: Updated proposals* p.g. 2

² *Consumers' views on renewable and low carbon supply tariffs* pg 14

In view of this apparent market failure we suggest that Ofgem and energy supply companies investigate how the renewable energy market could be improved to become more responsive to consumer demand., This work should be undertaken alongside the work on green supply guidelines.

As consumers currently believe they are buying something which in fact cannot be provided by most suppliers- the increased supply of renewable energy- there is a risk that this lack of substance is seen as *greenwash*. Greenwash is the marketing of items as if they were less environmentally damaging than rival products when in fact they are not, often legitimising a price premium. The occurrence of greenwash in the marketing of green tariffs risks reducing consumer confidence in these and other green products.

Although there are fundamental problems in the renewable energy market, given the issues with the claims being made about so-called green tariffs already in the market we believe that setting some standards would be beneficial. We agree that clarity about what the tariffs offer is crucial, as consumer confusion is evidenced in the MORI research. We welcome the opportunity to make tariffs and their claimed benefits more easily comparable and standardised. Which? supports the principle of additionality set out in the consultation but we have concerns about whether the examples given in the guidelines do address additionality in practice. We suggest a more specific range of examples aimed at directly addressing the harm caused by energy generation.

In our view enforcement of the guidelines requires greater independence than is outlined in this consultation, in order to generate the required consumer confidence in these products. We would suggest the appointment of an independent chair and a majority of independent directors. Where this is not possible a process of independent review and monitoring should be established, to oversee the accreditation scheme's enforcement work. However, the current suggested accreditation scheme appears time-consuming and expensive to set up and run. We would prefer to see more detailed guidelines and fewer examples of allowable measures. This would enable Ofgem itself to police energy suppliers' compliance at reasonable cost.

Above all Which? believes that suppliers should be making it clear to all their customers that using less energy will significantly reduce their environmental impact, and this should operate in tandem with work on green supply.

RESPONSES TO SPECIFIC QUESTIONS

CHAPTER THREE

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

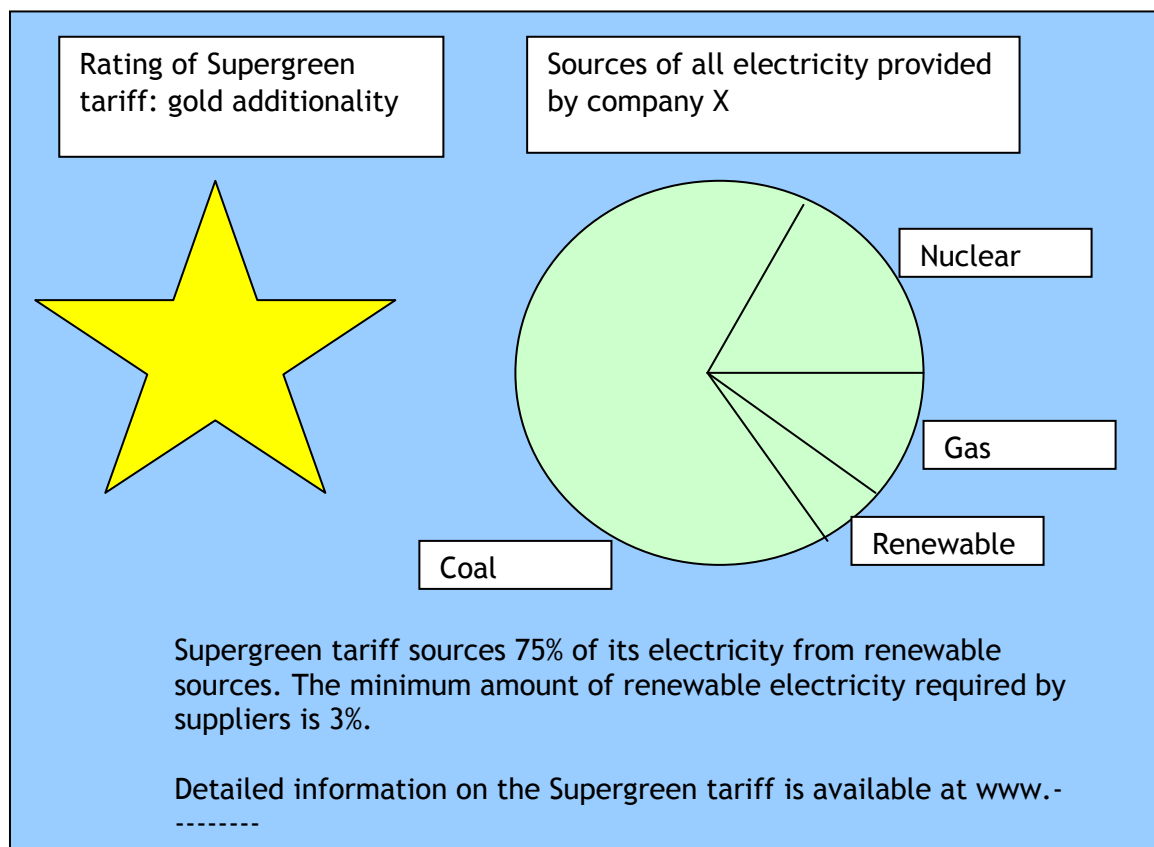
- 1 We agree there is a need to explicitly state to consumers that the electricity they *consume* is equivalent to the carbon content of the average fuel mix on the national grid, whether or not they opt for a green tariff and regardless of their supplier.

This should be distinguished from the electricity the consumer has *bought* through their supplier. The paid-for fuel mix should be shown in the first tier information as well as setting out the overall fuel mix for *all* of the supplier's customers.
- 2 The re-allocation of overall supply of green energy sourced by the supplier to green tariff holders only should be explicitly ruled out.
- 3 We agree that showing the supplier's overall fuel mix pictorially in a pie chart in tier one is useful. This chart should include all energy generation sources the supplier uses, not just those advertised on the green tariff. This should encourage genuine

additional investment in renewable energy over and above that required by the Renewable Obligation Certificate (ROC).

- 4 The tier one information given on the example in the consultation should clearly show the proportion of the consumer's premium which is invested in the additional measures, alongside the minimum amount (which is equivalent to the ROC spend per customer). This should indicate clearly that green tariff environmental benefits are in addition to the ROC commitments See Fig.1 below.
- 5 To provide context for consumers, the overall fuel mix should also be shown historically in the second tier information, indicating whether the supplier's use of renewables has improved over a rolling period of three to five years.
- 6 The suggested detail of information to be included in tier three appears sensible. We agree that the provision of the same information on suppliers websites, consumer organisations and Ofgem sites would be helpful, as it will enable consumers to make detailed comparisons between tariffs.

FIG 1: Mock-up example of the at a glance tier one information



Question two: 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.

- 7 It is the view of Which? that examples of additionality should directly address the damage caused by electricity generation. Competitive innovation should be focused

on directly addressing the problem of reducing the harm caused by energy generation.

- 8 While Which? believes that additionality is key to the credibility of the green tariff, this definition of additionality seems to assume that 'business as usual' is carbon-heavy, dirty generation. Accepting a damaging 'business as usual' approach is not an adequate response to the serious environmental challenges facing the UK. We believe that in addition to work on green tariffs Ofgem should consider how to encourage energy companies to reduce their environmental impact over the full range of their tariffs and how to create a market that can genuinely respond to increases in consumer demand for green energy.
- 9 Support for renewable heat installation does appear relevant for inclusion, as does support for smaller scale renewable electricity projects.
- 10 This scheme should not include demand-management measures suggested in the guideline examples, which consumers can undertake alone and in which energy suppliers are likely to be required to increase their investment in coming months/years anyway. Carbon-offsets and contributions to an environmental charity could be undertaken direct by consumers, often more tax-efficiently, and doing so through the energy supplier simply adds unnecessary layers to this simple action. The evidence given in the MORI research indicates little support for offsetting measures or contributions to environmental charities³. We see no value in including these examples.
- 11 Research and development is not a valid example of additionality. Innovation should be driven by a competitive market in which a company's wider profits are invested in developing innovative technologies from which shareholders will benefit. The additional benefit derived from green tariff income would be difficult to prove.
- 12 As the MORI research suggests, consumers value renewables investment above other measures. With the exception of renewable heat and small scale renewables, potential green tariff consumers do not expect the examples given in the consultation to be included in these tariffs, nor is any evidence given of the examples given being market-tested for consumer demand. We reiterate our call for Ofgem to investigate how consumer demand for supporting renewables could be met effectively in a modified and responsive market place.

Question three: *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.*

- 13 Which? recognises the difficulty of attempting carbon saving assessment, but the use of financial investment as a measure seems a highly flawed alternative. Rating tariffs purely by financial investment fails to recognise the comparative effectiveness and weighted value of the investment. This rating will not evaluate how much a tariff achieves as it does not show the specific outputs achieved as a result of the related investment. If carbon saving is too difficult to assess some other form of output should be included to help consumers compare whether the chosen tariff represents good value for their money.

³ Consumers' views on renewable and low carbon supply tariffs pg 14

Question four: *What are your views regarding the treatment of additionality for the non-domestic customers, particularly with respect to the most appropriate way to rate these tariffs?*

We have no comment as this question is aimed at suppliers.

CHAPTER FOUR

Question one: *For suppliers, do you accept the guidelines in principle?*

We have no comment as this question is aimed at suppliers.

Question two: *What form of accreditation scheme will it be possible to deliver by the end of 2008?*

- 14 The consultation asserts that guidelines on green tariffs will be voluntary and largely self-regulatory but it is worth noting that this is not what consumers appear to want. Ofgem's MORI research indicates a widespread belief amongst consumers that government should be responsible for enforcing green improvements.
- 15 Two specific assumptions are cited for the decision that this accreditation scheme should be voluntary and self-regulatory⁴: The first is that suppliers know what consumers want, yet no evidence is provided to back this up; and the second is that suppliers will pay for the scheme, whereas in fact consumers will pay for the scheme indirectly through their bills.
- 16 The consultation states that success of the tariffs depends on brand awareness of the accreditation scheme. Which? does not consider this to be entirely true, we deem it crucial that customers trust the accreditation scheme as a source of independent verification.
- 17 A supplier-run accreditation scheme is unlikely to be seen as independent by consumers, who express distrust of energy companies and a scepticism about the ability of Ofgem to take enforcement action against non-compliant companies⁵. In the opinion of Which? any accreditation scheme should include independent third parties to ensure adequate verification and robust enforcement to ensure public confidence.
- 18 The suggested enforcement measures for the accreditation scheme⁶ are inadequate in our view. If suppliers have made a false claim and charged a tariff premium, then the customer should receive a full refund plus interest. It is not sufficient for a tight knit group of suppliers to simply sanction each other through their own accreditation scheme.
- 19 Which? has further concern that the development of a supplier-led accreditation scheme could raise further barriers to new entrants on the energy market, by introducing complex new rules.
- 20 Which? would prefer to see our alternative to an accreditation scheme being adopted. As set out above, this would require more detailed guidelines and limited examples of allowable measures. This alternative method of enforcement would

⁴ *The green supply guidelines: Updated proposals* p.g. 24

⁵ *Consumers' views on renewable and low carbon supply tariffs* pg 18 & 29)

⁶ *The green supply guidelines: Updated proposals* p.g. 22

enable Ofgem itself to police energy suppliers' compliance at reasonable cost to the consumers who would ultimately fund this through their energy bills.

Question three: *Are there strong reasons to delay establishment of the accreditation scheme beyond the end of 2008? If there are, please explain why and what the benefits of delay may be.*

No further comments to add to the above.