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## **The Renewable Energy Company Ltd (Ecotricity) Response to Improving Consumer Protection in the Green and Renewable Energy Offers Market**

### **Introduction**

Ecotricity is a renewable energy generator and supplier with almost 100,000 customer accounts, and 61.5MWh generating capacity across the UK. We provide our customers with a single electricity tariff, Green Electricity, which comes from 100% renewable sources; and operate a not-for-dividend business model whereby we reinvest the money our customers spend on their energy bills to build more renewable generation.

Our tariff is not currently accredited to the Green Energy Supply (GES) Scheme. Nevertheless, outside the GES Scheme (and the associated Confidence Code), we promote our energy products as green; and we believe we do so fairly and accurately, based on the high contribution that renewable technologies have had on our fuel mix over the years (100% as of 1<sup>st</sup> August 2013).

Ofgem's recent proposals to amend the GES Scheme in a way that makes the differentiation between green and renewable tariffs mandatory will have a major impact on our business. We find the arguments behind the proposals flawed, and question the reliability of the customer sample used for the qualitative research. We are also confident that, if implemented, the proposed scheme will bring about negative change in the existing green tariff market; driving up the price of green tariffs and disincentivising demand for renewable energy.



## **Ofgem's customer survey**

The overriding premise of this consultation appears to be that there is a problem in the marketing of green energy tariffs (and of what Ofgem calls renewable energy tariffs – and apparently they are not the same thing); and that consumers are confused as to what is on offer and what they have bought. This premise appears to be based on 'stakeholder feedback' and some market research involving just 100 or so consumers. We are not convinced that the size and composition of this sample is reliable and representative of the green energy market.

An examination of this very small statistical base reveals that 76 (out of 104) respondents were 'non green customers recruited to be reflective of a broad cross section of Britain's consumers' – in which case 98% (or so) of these will be customers of one of the Big Six. The 28 respondents left were green tariff customers from 11 suppliers, the Big Six and five independents. Less than half of these 28 consumers were with an independent energy company on a green tariff (13 out of a total 104 surveyed).

This is a fundamentally unsound basis for proposing to impose these hitherto voluntary guidelines on the whole market. The problem identified is an incorrect one based on a small market sample biased (91 out of 104 respondents) towards the wrong customer group. It undermines any case for drawing qualitative conclusions from this small sample; namely that consumers on green tariffs are generally unengaged and confused.

Ecotricity customers, by contrast, tend to be engaged with energy and environmental issues and are well aware of the nature of the tariff they are on, the environmental benefits it provides, and indeed the alternatives on offer. Our customers engage actively through social media on the issues of energy and environment – it is no coincidence that we have the largest number of social media followers of any energy company – despite our relatively small size. The response we receive to the communications we send to our customers is considerable – for example a typical email will achieve a 50% open rate. Our customers are knowledgeable, informed and active.

Our customers made up a very small proportion (less than 2%) of the market sample used in Ofgem's research (2 respondents out of 104) – in contrast they make up a very large percentage of what Ofgem describes as the unaccredited green energy market – perhaps 50%.

We believe that Ofgem has misread the market, particularly the attitude and awareness of actual green consumers (as opposed to Big Six customers) and suppliers who have not adopted the accreditation scheme. The GES Scheme appears to have failed the market test, as Ofgem says in its consultation document – unaccredited tariffs now dominate the market. Ofgem's response to that is to impose it. This is a top down approach, it's out of kilter with the real green market and surely with the principles of encouraging innovation and competition, through intelligent regulation.

It is also important to note that the market has changed since the survey was done. The number of accredited green energy tariffs on offer (as Ofgem defines them) has reduced dramatically in recent months as the Big Six suppliers have dropped their green tariffs entirely. The green tariff market now consists of only the independent players.



## The green tariff market

Looking more closely (at the existing and proposed schemes) we believe that Ofgem has created an artificial definition of what a green energy tariff is. In the process of setting out to create simplicity for the benefit of consumers we believe that Ofgem has achieved the opposite – what should have been very simple (and always was before) has become very complex.

The proposals define a green energy tariff as one that brings an additional benefit over and above an arbitrary definition of business as usual. What this does is muddy the waters for customers who wish to simply choose green (i.e. renewable) energy. The artificial definition of 'renewable energy tariffs' as something quite different to green ones, just adds to the confusion. It is for this exact reason that the current scheme has not been a success with consumers. We note in this context that there has been no formal testing of Ofgem's proposed scheme. There has been actual market testing of course (of the current scheme) since 2009, and that test it has clearly failed.

It is a complex 'world view' of the kind that consultants might dream up in a degree of isolation from real world issues – certainly in isolation from real world consumers.

In the real world, the fact that the green tariff market now consists of only the independent players should be cause for Ofgem to rethink its entire approach – which we believe is to a large degree predicated on the issues of Big Six suppliers creating green tariffs as part of their larger operation. The market that exists now is a wholly different one. Independent suppliers do not suffer from or present the host of issues that the Big Six do when supplying green energy – and quite crucially they do not suffer from the same chronic lack of trust from the public. As mentioned in the previous section of our response, this independent sector is under represented in the survey, making it statistically unreliable and not a true representation of the green energy market as it exists now.

The proposals are therefore misplaced– the market has changed radically under the RMR regime and the main driver for regulation (Big Six behaviour) is no longer relevant.

## Additionality

This new proposal to enforce the scheme across the entire 'green' and 'renewable' sector will be detrimental. Not only will consumers be confused by these new definitions of green (if it is additional to government driven changes) and renewable (if it is merely green energy), but they are also likely to be off-put by the proposed enforced messaging (this renewable tariff will not bring about environmental benefit) and multiple layers of information.

In addition, customers will ultimately be forced to pay more for green energy, just because Ofgem holds an ideological position, informed by flimsy market research, that the existing system needs 'fixing'; and as a result insists that tariffs that call themselves green must fund some kind of additional environmental outcome, leading to the offset of 1 tonne of CO<sub>2</sub> offset. Our view is that carbon offsetting is a byword for greenwash to most environmentally aware consumers and in reality it will bring no real environmental benefit. Moreover, we fundamentally disagree with the 'compulsory purchase' requirement of the current scheme of additionality. This forces would-be consumers of green energy to buy something else on top. Which is wrong.



Our understanding of Ofgem's proposals is that they are based on the typical business model of the Big Six suppliers; whereby the company's small proportion of renewable power is assigned to the specialised green tariffs. However, given that this is far from representative of the existing green tariff market, mandating the GES Scheme would be unnecessary, complex and costly. It makes no sense to us, and we can see only harm coming from it – to the green energy sector we founded in 1995.

## **Pricing**

As mentioned, one of the consequences of the proposals is that customers will ultimately be forced to pay more for green energy. This is completely unnecessary, particularly at a time when all parties agree that there is a need to bring energy costs and consumer bills down; and ironically just as green energy suppliers like Ecotricity become price competitive for the first time.

Within the last few months we have dropped our price to below those of the standard Big Six tariffs (passing actual price cuts to all our customers in September 2013) and have frozen our prices twice in October 2013 – first to the new year and then to 1<sup>st</sup> April 2014. We operate an ethical pricing model whereby all our customers pay the same price, which has seen us become the cheapest supplier in half the country for Britain's most vulnerable households – those on pre-payment meters. This is quite a radical and improbable position for a small green energy supplier, we would suggest. And yet we are likely to be the first victim of any enforced additional expense as proposed by Ofgem, should we wish to continue to call our tariffs green.

We note in this context that adding costs to green energy tariffs is moving in the opposite direction to the current government who have been reducing green levies on bills quite avidly. We hope that Ofgem will reconsider its proposals in light of these impacts on consumers' bills but also on the competitive position of small green energy suppliers.

## **Evidence of supply**

Ecotricity disagrees that there is a need to associate Levy Exemption Certificates (LECs) as well as Renewable Energy Guarantees of Origin (REGOs) to renewable energy to be able to call it 'green' (as suggested under the GES 'Volume test'). We believe that customers understand the electricity they physically receive comes from the National Grid – and is of an average industry 'fuel mix'. We agree there is a need to ensure customers also understand that if a supplier is claiming a certain proportion of that customer's consumption is renewable, then the supplier needs to provide evidence that the same amount of renewable energy goes into the Grid.

That evidence should be REGOs. REGOs exist to certify that electricity is generated from eligible renewable energy sources. Conversely, the Climate Change Levy (CCL) is a tax on UK business energy use. LECs represent the evidence suppliers provide to HMRC in order to demonstrate that electricity supplied to UK business customers is CCL exempt. Therefore, LECs do not denote greenness or origin of supply. To link them in this way seems to only be to apply a cost.

In addition, requiring a supplier to retire or redeem any associated LECs in order to call its domestic tariff 'green', will not only have a significant financial impact on suppliers, but is also illogical, and will confuse customers further. For example, under the current proposals, a tariff with 100% renewable energy (without the associated LECs) could not be marketed as green. Conversely, a tariff with 10% renewable energy (with the associated LECs) could



be. That is nonsense. Particularly as we believe customers understand renewable energy and green energy to be the same thing.

We are also interested in why Ofgem aren't requiring the associated Renewable Obligation Certificates (ROCs) to also be treated in the same way as LECs. There is a large inconsistency in suggesting that suppliers need to retire LECs but not ROCs; both are financial schemes designed to support renewable energy. If anything, ROCs have the greater claim to relevance, as they apply to the domestic market, with customers already paying for the RO, but not LECs.

## **Suggested alternatives**

Ecotricity agrees with the principles this consultation sets out to achieve, but we are concerned that in their current form, they will stifle innovation and disproportionately increase cost for independent suppliers.

Therefore we suggest the following alternative approach, which we believe still meets the goals Ofgem are setting out to achieve.

### **1. Green tariffs**

- For customer confidence, there should simply be a minimum (but high) renewable energy threshold for any tariff advertised as 'green'. That minimum could be 50% renewable energy, or the company's overall FMD level – whichever is higher.
- To avoid confusion, there should be no differentiation between a green tariff and a renewable energy tariff.
- We agree there should be greater transparency of information on green tariffs, and suggest that source of energy should be a specific item in the Tariff Information Label for a green tariff.
- If that is not considered sufficient, then for additional customer protection, a supplier wishing to market a green tariff could be required to undergo an accreditation process – see below.

### **2. Evidence of supply**

- For simplicity, the market should use just one measure of greenness. This should be REGOs as the EU wide guarantee of origin and source; and therefore of greenness. LECs are not a badge of greenness, and should not be pushed as an additional cost on domestic customers' bills.
- For clarity, requiring an FMD chart at tariff level, with an explanation including specific fuel sources, will evidence renewable energy supply for customers.



### **3. Additionality at a company level**

We believe that customers simply want a green tariff to be sourced from renewable energy. It might therefore be enough to require suppliers to meet a high threshold for green energy content.

However, if additional evidence is needed to demonstrate that customers are contributing over and above to a 'business as usual' scenario, then we would suggest that any supplier wishing to market a green tariff be required to submit a bespoke case for Ofgem's approval, detailing the additional activities they pledge to undertake to prove their environmental credentials.

This would need to include:

- A minimum annual company FMD level;
- A strong link between the number of customers and the level of new generation built; and
- Clear thresholds met demonstrating customers support activities that are over and above existing government targets.

This would mean that activities could be evaluated on a case by case basis – ensuring the regulation doesn't constrain innovation or limit new entrants to the sector.

For Ecotricity, this would include our not-for-dividend business structure and the 'Bills into Mills' model. This means that, by re-investing our customers' bills into new generation, and by buying from other renewable generators, we strive to meet a yearly 100% FMD target; and therefore to provide all of our customers with 100% renewable energy. This is an additional environmental benefit, particularly when compared to an energy supplier with an FMD of say, 4%, who simply assigns all of this energy to the small number of customers who sign up to a specialised green tariff. Indeed, our 100% FMD and increasing generation capacity would be difficult to achieve if we didn't have more customers joining us. We spend more per customer than the Big Six combined on new capacity; with customer numbers and generation capacity having increased in parallel over the last 10 years. We are also investing in a national network of charge points for electric cars (the Electric Highway), which makes it easier for electric vehicle owners to make long distance journeys. We are doing this to help kickstart Britain's electric car revolution, and to encourage more people to think about where their energy comes from. We can therefore confidently claim that our customers' choice does drive additional benefits which would otherwise not occur.

### **Conclusion**

In summary, we believe that the goals that Ofgem has set out to achieve are laudable, but the existing scheme is seriously flawed as it adds considerable complication to what to many people has been a simple enough matter. This we would say is evidenced in part through the dramatic decline in the uptake of the scheme itself (and in part this is caused more latterly by RMR).

We believe that people simply want green energy, and they want to be sure that it is over and above what might otherwise normally happen – so they know they are making a difference. We think this can be achieved by requiring a simple and high threshold for green content of the tariff or FMD. This will ensure that something additional takes place, with clear rules and no need for accreditation.

If further proof of green credentials is needed, then that should be at a company level, without rules, but on a case by case basis. This would ensure that innovation is not stifled.

However, our strong recommendation would be for Ofgem to review the timeline on this proposal now, and to pause the process while the new market conditions are assessed. It has been 9 months since the survey was done, and the market has changed radically in that time. There is no immediate emergency action needed, and more time may enable more research and further consideration. We are happy to conduct research within our own customer base to evidence any claims we make on customer understanding. We are also happy to give Ofgem (or a third party on their behalf) access to our customer base to help with any further research or market testing of proposals.

Ecotricity welcomes the opportunity to respond and hope you take our comments on board.

We also welcome any further contact in response to this submission. Please contact Dale Vince on [dale.vince@ecotricity.co.uk](mailto:dale.vince@ecotricity.co.uk).

Yours sincerely



Dale Vince  
Founder

