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Improving Consumer Protection in the Green and Renewable Energy Offers Market
Response from the National Energy Foundation

This document is the response of the National Energy Foundation to the Ofgem consultation on the Green and Renewable Energy Offers Market. The National Energy Foundation is a charity that was established in 1988 and has, as its primary aim, the improvement of the use of energy in buildings. However, it has also been actively encouraging the take-up of renewable energy since the mid-1990s, with a particular focus on small-scale and building-integrated renewables.

The Foundation has acted as Secretariat to the Green Energy Supply Certification Scheme (the "Scheme") since its establishment in February 2010, so has a deep knowledge of the practical application of the existing Ofgem Guidelines (the "Guidelines"). The Foundation has worked closely with the Scheme Panel (the "Panel") in to facilitate their response and, probably inevitably as they are based upon a common experience of the Scheme and Guidelines, our views are in most places very similar to those expressed by the Panel. Nonetheless we should stress that references in this response to "we" or "us" refer to the National Energy Foundation and may not represent the views of the Green Energy Supply Certification Scheme Panel.

We welcome the decision of Ofgem to undertake the consultation. Since the Guidelines were published in February 2009 and the Scheme launched 12 months later there have been many changes to the retail electricity market. In particular there has been an increase in the number of unregulated renewable-only tariffs available to domestic customers, generally with no additionality and in some cases which would fail to meet the volume test ("matching" by green supplies) through non-retirement of associated LECs. This has made certified tariffs complying with the Guidelines considerably less attractive to offer to consumers, owing to costs associated with additionality, audits and supply. In turn, this has meant that the primary aim of the Guidelines – to protect consumers from unregulated offers – has not worked as planned, and among the plethora of offers there is a greater risk of confusion by all but the very best informed consumers.

As a charity with an interest in encouraging new appropriate renewable energy sources to be developed, we also feel that the Guidelines have been less successful than hoped in bringing on new supply. Granted, some small scale projects have been supported through green funds, but the rules of self-investment in renewable energy, designed to ensure that projects that could be supported through the Renewables Obligation ("RO") were not simultaneously supported through the additionality rules have meant that the total level of renewables supported by certified tariffs has been tiny. This has not only has this been a lost opportunity for the UK in developing a vibrant renewables market, but it has also arguably failed to meet customer expectations of additionality.

Most recently, the introduction of the RMR has severely limited the availability of certified tariffs, as most of the Big 6 suppliers have withdrawn evergreen green tariffs. In particular, the prohibition on suppliers from being able to green up a regular tariff through additional of matching and additionality has stifled innovative solutions that could have continued to offer consumers attractive options in the green electricity market (see question 5).

Chapter two questions

Question 1: Do you agree with our proposed updates to the principles of transparency and additionality?
Broadly, yes, although they are minor in nature and may be affected by some of the subsequent answers.

Question 2: Is the current CO2e abatement threshold of 1 tonne of CO2e emissions abated per tariff per annum (or broadly equivalent materiality depending on the additionality type) appropriate?
There are conflicting views on CO_2 abatement through additionality. One is that it is a voluntary contribution to provide a measure of additionality, recognising that purchase of a green tariff does not by itself guarantee any new supplies coming on stream. As such, the level is arbitrary and one tonne is as good as any other number. Moreover, in this case, it can be argued that the financial contribution is at least as important as the carbon figure, as setting a fixed level will encourage suppliers to look for the least cost option, which will typically be internationally traded CERs. Indeed, this has to some extent been recognised by the Scheme Rules, where a much lower level of additionality is accepted for green fund or energy efficiency measures, to encourage a wider range of additionality measures being offered to the public.

The second view accepts that as purchasing green (or renewable-only) electricity does not change the mix of electricity in the grid at any point in time, the only honest approach is to make additionality volume related, either through full offsetting (as was required when QAS offsets were part of the Scheme) or partial offsetting, so that larger users make a larger contribution towards additionality.

Our view (which differs slightly from the collective view of the Panel) is that partial offsetting, based on the FMD product mix for the tariff being sold, is probably the best option. By following this approach:

- large domestic users will contribute more towards additionality than small or efficient users;
- the costs of additionality will be collected by suppliers as part of the unit charge, rather than a standing charge – and so will be aligned with the costs of REGOs/LECs;
- using the FMD mix will mean that there will be a lower offset requirement for suppliers that buy mainly or wholly renewable energy; and
- the proportion of offsets can also be varied with type of additionality – so that, for example, it might require 100% for internationally traded carbon offsets, but only 50% for onsite energy efficiency projects or 20% for educationally focused green funds.

Question 3: Do you agree that our updated green supply guidelines should apply to any electricity tariff whose proposition relates to the supply of renewable energy alongside additional environmental benefits at tariff level?
Yes. We believe that a common set of Guidelines should apply to all renewable-energy based tariffs, whether or not they also include an element of additionality.

Question 4: Do you agree with our proposals for nuclear and CHP tariffs?
We agree that nuclear and CHP (other than biomass) should be excluded from green supply.
We have no objections to including good quality CHP as an additionality measure, providing that it is assessed under robust rules, and would suggest that in the tiered additionality approach we set out in question 3, it would need a moderately high percentage of offset to be acceptable to consumers.

Question 5: Do you agree that environmental bundles should avoid broad terms such as green or environmentally friendly when marketed to consumers?
We disagree with the principle of prohibiting the use of bundles to green up tariffs under the RMR. Our view, which is exactly aligned with that of the Panel, is that consumers should be able to elect to be able to "green up" any core tariff that is not explicitly tied to an alternative source of energy such nuclear (ie. a green bundle could be added to any tariff within the supplier's normal FMD mix). This

would be done by permitting consumers to buy a green bundle that included the three elements of a certified green tariff, namely transparency, matching and additionality. The matching element would have required purchase of (or matching by) renewable electricity guarantees of origin equal to the volume of the supply, alongside retirement of an equivalent level of LECs. Additionality would follow the normal rules in the Guidelines. This bundle would then allow conversion of any regular or core tariff into a fully compliant certified green tariff without necessarily using one for the four to which companies are limited under RMR.

Question 6: What do you think are the pros and cons of all, or some, of our proposed principles for green tariffs being extended to large non-domestic consumers? Is 100,000 kWh an appropriate threshold?

We welcome the principle of extending certified green or renewable tariffs to larger non-domestic consumers. Under almost any definition, an electricity use of 100,000 kWh per annum would still not be "large", but accept that it is an improvement over the current even lower level of 55,000 kWh. From our experience going back over a decade with the Energy Efficiency Accreditation Scheme, we know that many companies are concerned about their environmental impact and see the purchase of green electricity as a way of demonstrating this concern. We therefore recommend that the upper threshold limit should be removed completely, and any supply that is available to non-domestic customers on a fixed tariff basis (as opposed to a negotiated contract) should be capable of being structured in accordance with the guidelines and certified as green, and leaving it to the market to determine the appropriate upper level for such offers. This could also significantly expand the additionality market, as non-domestic additionality has always been based upon supply volumes.

Question 7: Do you have a preferred implementation and verification option? Why?

We would like to start by re-declaring our interest as the secretariat to the existing Green Energy Supply Certification Scheme. We would also note that, despite good support from Scheme members, the Scheme has been run on something of a shoestring financially, and may not have achieved the level of impact that a better resourced solution would have been able to do. Instead it has focused on ensuring rigorous compliance with the Guidelines (and the Scheme's own Rule Book) to provide assurance for consumers. However this focus on certification (as opposed to marketing) has not encouraged expansion of the Scheme, and may have contributed to the development of a number of renewables-only tariffs outside the Scheme. Consequently we believe any implementation and verification route must address the renewables-only part of the market on an equal footing with the green tariff market. We do not believe that voluntary guidance (options 1 and 2) would achieve this important aim.

As consumer trust in the energy industry is low, self-verification by suppliers will not meet consumer expectations. Inevitably, this means that some form of external verification is required, whether provided through a scheme (such as the Green Energy Supply Certification Scheme) or by Ofgem itself. We are also aware that the role and duties of Ofgem are not widely understood by the public, and would suggest that even if Ofgem takes responsibility for policing verification it continues to use the existing certification mark (which is owned by the authority).

Our preferred option would therefore be Option 4 as it is the one most likely to provide high quality consumer protection while retaining a degree of flexibility in the way this is done.

Question 8: What is the best method of ensuring that the principles are consistently applied in the market?

As indicated in our answer to Question 7, we believe that consistency will only be possible if the voluntary Guidelines are replaced by a mandatory standard or licence condition that applies to all environmental tariffs, not just those including an element of additionality.

Question 9: Do you agree that a prescriptive approach should be applied to the additionality principle for green tariffs? If so what activities should be included? Please provide evidence to support your answer.
We believe that in general the market should be allowed to determine which additionality measures are offered, providing that they meet sufficiently robust rules on being truly additional and in terms of calculated carbon savings. This would permit suppliers to invest in their own renewable electricity capacity, but in this case we would probably expect a requirement on such investments that they could not also benefit from ROCs. We would also no longer wish to limit internationally traded carbon offsets to Gold Standard ones, providing they met clearly defined, audited standards. Our one limitation on this would be to insist that all savings should be through CO_2 reductions, and not from other GHG gases, currently possible with some traded offsets, as our (admittedly anecdotal evidence) suggests that the public would expect carbon for carbon savings.

As part of the transparency requirements, though, consumers should be made aware of which additionality route has been chosen, and the level (and if appropriate method of calculation) of the carbon savings achieved.

Chapter three questions

Question 10: Do you agree that there is a need for increased transparency around the sale of other renewable energy tariffs?
Yes – this is a major failing of the market at present.

Question 11: Do you agree that other renewable energy tariffs, without any tariff level environmental benefits, should follow our 'transparency' principles for green tariffs (excluding requirements relating to additionality)?
Yes – this is essential if order is to be restored to the market.

Question 12: What is the best way to convey to consumers at the point of sale that purchasing the tariff will not drive additional environmental benefits? If this is a message, what should it be?
We do not believe that the full implications saying "This is not a green tariff" would be understood average consumer. It assumes that they understand what is meant by a green tariff, and the quite subtle distinction between a green one (as defined by Ofgem) and a renewables-only tariff. Our own experience backs up Ofgem's research that there is a lack of public understanding in this area. If a simple statement is required, the sentence "You are not adding extra renewable energy into the electricity supply by buying this tariff" would be slightly more understandable. However any wording options would need to be tested carefully with real consumers.

Any tariff sold on the basis of its supply mix (or as a green, environmental or renewable tariff) should also be required to include the relevant portion of the Fuel Mix Disclosure upfront – typically the renewables and total non-renewable split. This will help prevent misleading claims around 100% renewable energy, when the tariff is simply reallocating supply between a number of different tariffs.

Question 13: Do you agree that other renewable energy tariffs should also follow the 'evidence of supply' principle?
Yes. We believe that it is absolutely essential that any renewable-only tariff follows the same rules prohibiting double selling by preventing LECs and REGOs being split (or requires UK LECs to be purchased for use with imported REGOs).

Question 14: What do you think the pros and cons of our proposals for other renewable energy tariffs being extended to large non-domestic consumers are? Is 100,000 kWh an appropriate threshold?

We would refer back to our response to Question 6, as we believe that the same principles should be applied (namely that there should be no fixed upper limit, but that certified supplies should be available to any business on a non-negotiated tariff).

Question 15: Do you have a preferred implementation option for our proposal for other renewable energy tariffs? Why?
We would refer back to our response to questions 7 and 8, where we state that any rules for green tariffs should be applied equally to renewable-only tariffs.

The response has been coordinated by Ian Byrne, Deputy Chief Executive of the National Energy Foundation.

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