

Energy UK Response: Transparency of Carbon Content in Energy Products

6 December 2021

Introduction

Energy UK is the trade association for the energy industry with over 100 members spanning every aspect of the energy sector – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

We represent the diverse nature of the UK's energy industry with our members delivering nearly 80% of the UK's power generation and over 95% of the energy supply for the 28 million UK homes as well as many businesses. The energy industry invests £13bn annually, delivers nearly £30bn in gross value added on top of the nearly £100bn in economic activity through its supply chain and interaction with other sectors, and supports over 700,000 jobs in every corner of the country.

This is a high-level response to BEIS' Call for Evidence on Transparency of Carbon Content in Energy Products; Energy UK's members may hold different views on particular aspects of the consultation and will be best placed to provide some of the detailed evidence being sought. We would be happy to discuss any of the points made in further detail with BEIS or any other interested party if this is considered to be beneficial.

Transparency

Principles for Reforms

Broadly speaking, we believe that this topic needs to be considered in two stages; the short-term and the long-term, noting that different options may be required at different times to address different challenges.

In the short term, there are two interrelated and interdependent questions to be considered and addressed with regards to the appropriateness of the current rules:

- **Transparency** – Whether the current rules provide consumers with transparent, clear and concise information on the underlying credentials of any tariff marketed as green.
- **Additionality Requirement on Green Tariffs** – Whether tariffs marketed as renewable, green or low-carbon need to directly and materially support renewable or low-carbon generation, over and above the financial benefit derived from selling Guarantees of Origin.

Looking to the long term, there is an important question with regards to the meaning of a 'green' tariff in an increasingly (and eventually wholly) net-zero energy system and, therefore, the long-term suitability of any framework.

With regards to both sets of challenges, however, Energy UK believes that there is a common set of principles which should guide consideration of the framework around the marketing of 'green' tariffs and other energy products:

- **Transparency** – Any claim made of a tariff/product should be clearly understood by customers so as to ensure they are making informed choices when engaging in the market.
- **Consumer Understanding** – Any reform efforts should support increased consumer understanding of decarbonising the energy system, including how the tariff choices they make impact upon renewable generation and carbon intensity of their energy usage.
- **Net Benefit to Net Zero** – Options for reform should be assessed on their overall impact upon the transition to Net Zero, including potential consequences for consumer behaviour and engagement with new products or services to aid in decarbonisation.
- **Measurability & Comparability** – Any interventions should not unnecessarily increase the complexity that customers face in comparing product offerings.
- **Minimise Risk of Gaming** – Any reforms that are introduced to the framework should be made in a way that minimises the risk of allowing an unlevel playing field through gaming the system.
- **Robust Rationale & Justification** – Any interventions should be based on objective criteria and should be supported by a robust rationale and evidence base, including a full cost-benefit analysis.

Short-term Action on Transparency

Energy UK supports increased transparency with regards to the marketing of green or renewable tariffs/products to domestic customers. This includes considering it reasonable to have relevant, equivalent requirements in place in relation to the marketing of 'green' gas (though it could take time to establish relevant requirements and this could come at a later date). We summarise the potential advantages and disadvantages of a range of options that have been promoted by various stakeholders to help increase transparency in Annex A.

However, given the plurality of our membership we do not currently have a view on the principle of additionality itself. We also do not currently have a view on whether requirements require updating for the non-domestic market (or sections of it such as microbusinesses) as well as the domestic market, and, if so, whether these should differ from the domestic requirements.

In addition, while greater transparency at the consumer level will be welcome, the means to achieve it must be well-thought through – more information for consumers does not always lead to greater transparency if the information is complex and unengaging for the average consumer. Reforms to increase transparency should be done so with the need for clarity in mind. Concerns have been raised that consumer interest in Net Zero, green energy and greener tariffs is still too low, presenting a significant challenge for successfully getting customers on board with the behaviour and technology changes needed for achieving Net Zero. Approaches to increasing transparency in an effective manner must also be accompanied by other actions to drive consumer engagement and behaviour change.

We have seen in recent months the market step-up to address some of the current gaps in transparency of tariffs on the market, with Uswitch developing its Green Accreditation scheme which ranks the tariff offerings from Gold to Bronze on a range of "green" factors. While this is the first of its kind from a Price Comparison Website (PCW), it is possible that other PCWs or third parties may develop their own rating system that is used in their marketing to consumers. However, there is a danger that the development and implementation of multiple rating systems, with different methodologies or weightings on factors, may only add to customer confusion and the opacity of "green" tariffs rather than improving transparency and consumer understanding. For example, the lack of rules and clarity around off-setting schemes could mean different rating systems deliver different results for suppliers, skewing consumer understanding of what the environmental impacts really are of their tariff choice and potentially disguising the benefits of energy efficiency and other decarbonisation measures. It may be prudent for BEIS to consider whether minimum standards for off-setting schemes are needed to improve transparency and consistency on this issue. Overall, these concerns highlight the importance of BEIS' work examining the regulation of Third-party Intermediaries in the energy sector, and we would urge BEIS to ensure that these two workstreams are consistent with each other in their approaches.

We would suggest that BEIS could explore how suppliers can be incentivised to compete on Net Zero on a supplier-by-supplier basis, rather than just with comparisons of individual tariffs. Allowing for a holistic comparison of suppliers on a Net Zero basis could help better inform customers in the choices that they are making, as well as drive investment and innovations by suppliers to increase their appeal to Net Zero-focussed customers. For example, this could mirror the Citizens Advice Star Rating of suppliers' customer services, whereby a consistent methodology is developed with input from industry and other stakeholders to ensure that the whole range of relevant factors are taken into account, and published by a trusted consumer organisation. Importantly, any methodology sitting behind a supplier-level rating tool should evolve and strengthen over time as we move to Net Zero and the approach of suppliers (and the make-up of the energy system) evolves.

A Framework fit for the Future

Energy UK discussions with members have to date primarily focussed on addressing current perceived flaws in the regulation and requirements of "green" tariffs, as demonstrated by the number of short-term reform options considered in the Annex to this paper. Our members may be best placed to provide the detailed evidence called for by BEIS to examine potential reforms for a future-proofed framework.

However, as we move forward, we recognise that any framework focused on the source of power alone is inevitably of increasingly limited use to consumers and industry. Energy UK would, therefore, support work to begin considering the appropriate framework to reflect and help communicate to customers the carbon intensity of the energy they have used, taking into account additional variances such as carbon intensity of the grid at the time of use, geographic location and demand response. This should include exploring how the existing market systems and processes could be utilised to achieve BEIS' intended outcomes, or whether industry change programmes (i.e. Market-wide Half-hourly Settlement) will need to be completed first.

As these longer-term reforms are discussed and developed, consideration will need to be given to a variety of interlinked concerns, guided by the principles outlined in this paper. For example, as well as the costs to consumers of "green" tariffs, we should consider any wider impacts on the retail market and competition, broader energy system changes required to enable/incentivise customers to act on greater transparency (e.g. shifting times of usage), and ensuring investor confidence and financing of renewable generators.

Importantly, whatever framework reform options BEIS considers as part of this workstream, it is paramount that its other policy initiatives are aligned with Net Zero and enabling the innovative future market required for its achievement. Energy UK remains significantly concerned with BEIS' consideration and prioritisation of its opt-in and opt-out switching schemes. BEIS has not been clear how it believes that these proposals will support the Net Zero transition. To the contrary, the switching proposals put forward by BEIS will deter the investment that is needed to meet the Net Zero target, and risk undermining consumer trust in the energy market just as it is needed most to adopt innovations as we continue the transition to a smarter, more flexible system.

We are already seeing a growing trend of consumers considering the greenness of suppliers and tariffs when deciding on a switch, or in staying actively loyal to their supplier, and the combination of a price-focused market via opt-out switching and undermined consumer trust could reverse this trend, impacting heavily on consumer take-up of Net Zero-enabling products and services. The decarbonisation of heat and transport are critical for the successful delivery of the fifth and sixth carbon budgets, and suppliers will be at the forefront of its delivery. Trusted relationships between suppliers and their customers, as well as retail innovation and investment, will be key to the adoption of novel technologies and achieving behaviour change. However, these requirements risk being undermined by BEIS' switching proposals, risking the benefits of a more transparent framework for carbon content, and the delivery of Net Zero by 2050 as a whole.

If you would like to discuss the above or any other related matters in further detail, please contact me directly at Steve.Kirkwood@energy-uk-org.uk or on 0207 747 2931.

Green Tariff – Short-term Reform Options

Annex A

Short term reform options

Reflecting on the principles above, we have observed that members and other relevant stakeholders have to date outlined a number of options for how the current SLC framework could be amended to increase transparency. These include:

1. Retain Status Quo
2. Exclude European GoOs Use
3. Traffic Light System
4. Consumer Education Campaign
5. Standardised Definitions - Direct Support for Renewable/Low-carbon
 - a) 100% Renewable
 - b) 100% Low-carbon
 - c) X% Renewable/Low-carbon
6. Linking REGOs to Existing Renewable Support
7. Environmental Threshold Introduction
8. Environmental Claims Audit

Depending on the intended purpose and scope, it is possible that a number of complimentary requirements would best address the issues under consideration. We explore the potential benefits and adverse impacts of each option for both consumers and suppliers below.

This list is not exhaustive and inclusion in this Annex does not denote Energy UK support for any option. The assessment included for each option is a high-level summary of the feedback we have received from members to date.

1. Retain Status Quo

Retaining the status quo of requirements whereby separated/unclaimed REGOs can be purchased to be attached to power and marketed as “green”, supported by general consumer law relating to misleading eco-friendly claims for tariffs, for which the CMA is currently investigating and it will be publishing guidance for businesses later in the year.¹

Pros	Cons
<p>Reliance upon general consumer laws could mean consistency across suppliers and other sectors with regards to eco-friendly claims, particularly given the CMA’s expected guidance on misleading environmental claims due this year.</p> <p>No additional administrative burdens for suppliers.</p>	<p>Lack of transparency requirements could undermine consumer confidence in taking up “green” tariff options.</p> <p>Could lead to continued allegations of greenwashing if standards are understood differently by different suppliers.</p> <p>Excludes nuclear, biomass and other low carbon sources of electricity. If net zero is the aim, does it matter if power is from renewable generators, over and above low carbon generation assets? (The consideration of this impact would need to</p>

¹ <https://www.gov.uk/cma-cases/misleading-environmental-claims>

	be aligned with the outcome of BEIS' review of the role of biomass in achieving net zero).
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2. Exclude European GoOs Use from Environmental Obligations & Green Claims

The act of purchasing European GoOs no longer grants the purchasing supplier relief from environmental levies and may not be used to substantiate green tariff claims. This option could potentially differentiate between the use of European GoO certificates alone, and those bought alongside the associated energy through a PPA.

Pros	Cons
<p>Could increase the market value of REGOs, and, therefore, income for UK renewable generators.</p>	<p>Could increase the market value of REGOs, and, therefore, the cost of energy for customers.</p> <p>Will not solve the wider transparency concerns in isolation. Different approaches to structuring 'green' tariffs will all still be possible.</p> <p>Would introduce a short market, limit suppliers to procure green power which could increase costs to consumers. It reapportions the value between certificate and commodity, and that complexity requires greater resources to analyse and risk manage. No way to track imported power, particularly renewable power.</p> <p>Barriers to entry and participation that results from the above.</p> <p>Excludes nuclear, biomass and other low carbon sources of electricity. If net zero is the aim, does it matter if power is from renewable generators, over and above low carbon generation assets? (The consideration of this impact would need to be aligned with the outcome of BEIS' review of the role of biomass in achieving net zero).</p> <p>May result in fewer green tariff options available to consumers. The market may appear less competitive as a result.</p>

3. 'Traffic Light' or Labelling System

Introducing a 'traffic light' labelling system, or a star/letter rating system, to help customers differentiate between the different types of renewable/low carbon tariffs available based upon an objective assessment.

Pros	Cons
<p>Allows consumers to better compare supplier offers transparently in a familiar method used successfully in other consumer products (e.g. food labelling).</p> <p>Allows for suppliers to vary their 'green' offers and customers to make decisions about what they prefer.</p> <p>Consumers are already familiar with the use of a traffic light systems from other markets, i.e. food produce packaging.</p>	<p>If not sufficiently publicised and explained, potentially adds further complexity for consumers when they are looking to make decisions about their energy supplier. Could hinder consumer engagement and switching.</p> <p>Difficulty in determining appropriate thresholds for ratings. Would require independent body to annually assess thresholds with a route for appeals.</p>

<p>Consumers are already familiar with other rating systems for consumer products/services, i.e. EPC ratings, Defacto Star Ratings, Trustpilot Star Ratings, FSA Food Hygiene Ratings.</p> <p>Greater transparency may drive increased competition between suppliers in relation to their 'Green Tariff' offerings.</p> <p>May help to promote consumer confidence in the 'product' they are buying into, as well as confidence and trust in their supplier.</p> <p>Can flex with evolution of tariff and product offerings as we get closer to Net Zero, becoming more than just source of generation.</p>	<p>Potentially burdensome for the regulator (or independent certification body) to develop, monitor and maintain appropriate system.</p> <p>Subject to customer decisions on the type of tariff customers decide to purchase, and the manner in which the ratings are decided, it may not result in direct support for renewable generation capacity, over and above any financial benefit from the sales of REGOs/GOOs.</p> <p>May inadvertently create ways to "greenwash" with tariff ratings particularly due to lack of timestamps - would not solve temporal green signals.</p>
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4. Consumer Education Campaign

A Government-led consumer education campaign to increase consumer understanding of green tariffs, how they work, and the rules (existing or reformed) in place that govern their marketing.

Pros	Cons
<p>Consumers' understanding of renewable funding and carbon intensity would allow for more informed choices in tariffs.</p> <p>Improved consumer understanding of the system may minimise risk of being misled by claims.</p> <p>Improved energy market reputation is consumers are more aware of where the costs of their bills come from, and the policies that they fund.</p> <p>Greater knowledge/understanding could have positive halo-effect to consumer behaviours in other markets and product choices.</p>	<p>Progress may be slow to reach sufficient understanding of current or new requirements for making green claims of tariffs.</p> <p>May be additional burden upon suppliers if financed similarly to Smart Energy GB.</p> <p>Could undermined consumer trust if done in isolation as it may not fully address concerns with misleading claims being made, nor the risk that customers would expect greater action to be required.</p>

5. Standardisation of Definitions

The below options set out possible standardised definitions for the use of "green" or "renewable" in the marketing of tariffs, requiring a direct power purchasing requirement for those claims:

a. 100% Renewable

Changing the SLCs so that no tariff can be marketed as "100% renewable" (or any percentage as renewable), unless the supplier is buying that percentage of power from a renewable generator.

Pros	Cons
<p>Reinstates the original link provided by LECs until 2015.</p> <p>Sets a clear single standard for what is a 'green tariff' for both suppliers and customers.</p> <p>Ensures green tariffs provide drive direct support for renewable generation capacity. May help</p>	<p>May result in the appearance of fewer 'green' tariff options available to consumers. The retail market may appear less competitive as a result.</p> <p>Potentially excludes low carbon sources of electricity. If net zero is the aim, does it matter if power is from renewable generators, over and above low-carbon generation assets? (The consideration of this impact would need to be</p>

<p>smaller and community-scale renewable projects that are struggling to acquire finance.²</p> <p>May reduce the time consumers spend researching into individual suppliers and Green Tariffs to safeguard themselves against 'greenwashing' and misleading environmental claims.</p> <p>May help to promote consumer confidence in the 'product' they are buying into, as well as confidence and trust in their supplier.</p>	<p>aligned with the outcome of BEIS' review of the role of biomass in achieving net zero).</p> <p>May pose an extremely high bar for renewables-supporting tariffs that could undermine consumer interest in such tariffs if they cannot be marketed as "green".</p> <p>May contradict with the Fuel Mix Disclosure requirement, so FMD would need to be unpicked at the same time to avoid customer confusion.</p> <p>May impact innovation in the market if suppliers are restricted to a particular business model and/or pricing strategy to offer renewable tariffs.</p> <p>"100%" renewable claims would still be open to challenge unless shape of demand is matched, not just an equivalent number of MWh across a whole year.</p>
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b. 100% low-carbon

Changing the SLCs so that no tariff can be marketed as 100% renewable, unless the supplier is buying that power from a low-carbon generator.

Pros	Cons
<p>Sets a clear single standard for what is a 'low carbon tariff' for both suppliers and customers.</p> <p>Ensures low carbon tariffs provide drive direct support for low-carbon generation capacity. May help smaller and community-scale renewable projects that are struggling to acquire finance.³</p> <p>May reduce the time consumers spend researching into individual suppliers and green tariffs to safeguard themselves against 'greenwashing' and misleading environmental claims.</p> <p>May help to promote consumer confidence in the 'product' they are buying into, as well as confidence and trust in their supplier.</p> <p>May be extended to cover carbon offset gas or a proportion of green gas.</p>	<p>May result in the appearance of fewer 'green' tariff options available to consumers. The retail market may appear less competitive as a result.</p> <p>Would potentially limit transparency and clarity by not allowing consumers to distinguish between renewable energy sources and other low-carbon sources (e.g. nuclear and biomass), unless introduced alongside option 2a.</p> <p>May impact innovation in the market if suppliers are restricted to a particular business model and/or pricing strategy to offer renewable tariffs.</p>

² <https://bigcleanswitch.org/supplier-tariff-selection-policy/>

³ <https://bigcleanswitch.org/supplier-tariff-selection-policy/>

c. X% Renewable/Low-carbon

All tariffs marketed as renewable or green (not just those marketed as 100% renewable) may require a set % of power purchased directly from renewable or low-carbon generators, over and above certificates purchased.

Pros	Cons
<p>Sets a clear single standard for what is a ‘green tariff’ for both suppliers and customers.</p> <p>Ensures green tariffs provide drive direct support for renewable and low-carbon generation capacity. May help smaller and community-scale renewable projects that are struggling to acquire finance.⁴</p> <p>May help to promote consumer confidence in the ‘product’ they are buying into, as well as confidence and trust in their supplier.</p>	<p>May result in the appearance of fewer ‘green’ tariff options available to consumers. The retail market may appear less competitive as a result.</p> <p>May make green tariffs more complicated for consumers to understand.</p>

6. Linking REGOs to Existing Renewable Support

The MWHs each supplier and its customers have supported under RO, CfD and FiT come with REGOs attached at no additional cost to the supplier. If suppliers do not want them, they should retain the right to trade them. Suppliers would then also be able to purchase more REGOs separately. These additional REGOs would largely reflect, unsubsidised, additional renewable generation.

Pros	Cons
<p>It’s been suggested that the resulting price of REGOs would increase. The REGO price plus the energy price would reflect the true cost of renewable electricity.</p> <p>Requires minimal changes to Ofgem’s administration of REGOs and FMD, and minimal changes to supplier obligations.</p> <p>This can also include low carbon e.g. future CfDs will support low carbon projects which are not renewable.</p>	<p>Additional administrative burden to calculate subsidised MWHs from the constituent schemes.</p> <p>Potentially disproportionately benefits suppliers with larger portfolios, and suppliers who have been in the market longer, i.e. new entrants either not obligated to support FiTs or less likely to attract FiT ‘switchers’.</p> <p>Concern has been raised that this would in actuality decrease the value of REGOs, and therefore the support provided to renewable generation.</p>

7. Environmental Threshold Introduction

Introducing a threshold for environmental benefit claims in the existing SLC 21D. For example, as under the DTC, for example, Ofgem seeks evidence of a ‘significant’ environmental benefit for any derogation request.

Pros	Cons
<p>Claims which bring little environmental benefit will likely not meet the threshold criteria.</p> <p>Potential to continue to allow suppliers to vary how they provide an ‘environmental benefit’ and</p>	<p>Does not reduce the complexity of the market.</p> <p>Potentially burdensome for the regulator, dependent upon how the threshold is set and evaluated. Would likely need annual re-evaluation with a route for appeals.</p>

⁴ <https://bigcleanswitch.org/supplier-tariff-selection-policy/>

<p>customers to make decisions about what they prefer.</p> <p>Higher threshold could result in more direct support for renewable generation capacity and/or other environmental goals.</p> <p>May help to promote consumer confidence in the 'product' they are buying into, as well as confidence and trust in their supplier.</p> <p>Elexon could support Ofgem in the delivery of some data required to set the threshold and in validating some claims relating to additionality, they hold a potential audit trail back to green generation in the GB market. But the environmental benefit will need be defined first, i.e. what constitutes environmental benefits, to then help define the role Elexon can play.</p>	<p>Difficult to decide on the metrics to measure the threshold for environmental benefit claims, and communicated to customers</p> <p>Difficult to compare different suppliers' 'environmental benefit' offerings (e.g. supporting windfarms v planting trees).</p> <p>May result in the appearance of fewer 'green' tariff options being available to consumers if threshold is high. The retail market may appear less competitive as a result.</p> <p>Potentially excludes low carbon sources of electricity. If net zero is the aim, does it matter if power is from renewable generators, over and above low carbon generation assets?</p> <p>Absence of clear rules could lead to continued allegations of greenwashing.</p>
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8. Environmental Claims Audit

Encouraging Ofgem or an independent body to audit the environmental claims being attached to tariffs, in particular around additionality. For example, Elexon may hold a potential audit trail back to green generation in the GB market, so might be able to validate green claims without the need to amend REGO rules.

Pros	Cons
<p>Claims which bring little environmental benefit will fail the audit.</p> <p>Potential to continue to allow suppliers to vary how they provide an 'environmental benefit' and customers to make decisions about what they prefer.</p> <p>Consumers may feel more confident in their choice of supplier and Green Tariff with knowledge that a regulator (such as Ofgem) audits the environmental claims of suppliers.</p> <p>There may also be a benefit in Elexon taking a role, they hold a potential audit trail back to green generation in the GB market, so might be able to validate green claims and limit the scope of reform necessary.</p>	<p>Difficulty in deciding on the metrics to measure the threshold for environmental claims, and how this is communicated to customers.</p> <p>Complexity for consumers in clearly comparing different suppliers' 'environmental claims' (supporting windfarms v planting trees)?</p> <p>Added complexity for consumers and Ofgem, including the decisions and impacts of a supplier's tariff failing an audit.</p> <p>Excludes low carbon sources of electricity. If net zero is the aim, does it matter if power is from renewable generators, over and above low carbon generation assets?</p>