

Come Clean on Green

Greenwashing of electricity
tariffs in the UK market



Executive Summary

Renewable electricity tariffs are growing rapidly in popularity as consumers strive to cut their carbon footprint and play their part in saving the planet. Harnessing this commitment will be vital to making progress towards Net Zero, but many commentators have started to question whether these tariffs are all as green as consumers might expect. This paper provides an update on the state of 'greenwashing' in the UK energy retail market, drawing on a recent survey by Baringa which provides the first ever independent overview of supplier activity.¹

Renewable ('green') electricity tariffs fall into three main categories, with widely varying environmental benefits (referred to as 'additionality'). Tariffs based on long term **power purchase agreements (PPAs)** between the supplier and generators provide much needed support to generators in financing their investments and contribute significantly to deploying renewables. Tariffs based merely on **traded UK renewables certificates**, with no direct link to the source of the energy, provide minimal benefit to renewables generators. And then there are tariffs based on certificates purchased from outside the UK, which provide no benefit and - what's more - exempt the supplier from contributing to Government support schemes for renewables. **Whilst tariffs backed by PPAs can legitimately lay claim to be green, tariffs backed by certificates only (UK or foreign) are a prime example of greenwashing.**

Good Energy and ScottishPower call on Government and Ofgem to take urgent action to call time on greenwashing in the UK energy retail market:

- requiring higher standards of transparency and disclosure in green marketing
- reforming the outdated fuel mix disclosure regime,
- tightening the rules around 'additionality' in supplier marketing claims
- closing the loophole which allows suppliers to escape their environmental levy obligations by purchasing foreign certificates.

¹ 'Renewable tariffs in the UK: what makes a tariff green?', Baringa, April 2021. <https://www.baringa.com/en/insights-news/points-of-view/renewable-tariffs-in-the-uk-what-makes-a-tariff-g/>



Baringa's survey shows that around a third of the electricity supplied through tariffs marketed as green or renewable in Britain is, by the above definition, greenwashed. Suppliers most culpable of greenwashing include Bulb Energy, Shell Energy, Pure Planet and a supplier we believe to be Octopus Energy², with millions of customers on their greenwashed tariffs. According to Baringa's analysis, Good Energy and ScottishPower are two of only three suppliers offering genuinely 100% green electricity tariffs in the UK market. **Consumers who want to be sure that their electricity tariff is genuinely green should choose a supplier whose green tariffs are 100% backed by renewable PPAs.**

Independent polling shows that a significant majority of consumers expect renewable tariffs to mean electricity is purchased from renewable generators in the UK – and that they would be seriously concerned if they discovered this wasn't true. If suppliers continue to be permitted to mislead consumers, this will weaken the power of consumer choice and risk undermining trust in **suppliers' green credentials – at a point in time when suppliers have a vital role in informing and educating consumers about the journey to Net Zero.**

Good Energy and ScottishPower call on Government and Ofgem to take urgent action to call time on greenwashing in the UK energy retail market:

- requiring higher standards of transparency and disclosure in green marketing
- reforming the outdated fuel mix disclosure regime,
- tightening the rules around 'additionality' in supplier marketing claims
- closing the loophole which allows suppliers to escape their environmental levy obligations by purchasing foreign certificates.

² Baringa have anonymised a number of suppliers' data in their survey. On the basis of publicly available data on REGO/GoO redemption and retail market shares, we believe that 'Anonymised Supplier 2' referred to in the survey is Octopus Energy.

Background

The UK energy market is changing fast. On the generation side, the amount of power provided by renewable sources has increased sharply. In retail, the number of suppliers has exploded. In the last five years, the amount of electricity generated by renewables has more than doubled from 22.3% in the first quarter of 2015 to 47% in Q1 of 2020. In the same five-year period, more than 50 new energy suppliers have entered the market — many claiming to offer renewable electricity to customers.

As public concern about climate change has grown, suppliers have been keen to capitalise by offering consumers green tariffs. With renewable electricity generation in relatively plentiful supply, it would seem that it has been straightforward for them to do so. The result is that more than half of the energy tariffs available today are marketed as providing 100% renewable electricity.

But are these new green electricity offerings helping to drive continued growth in renewable generation? Or simply following it? And what do consumers expect when they choose a green tariff? Are they really helping the transition to a cleaner energy system? Are the concerns raised by Which? and others justified?³

Good Energy and ScottishPower are two companies determined to address these concerns. Our report outlines the issues with the current system for the provision of green electricity tariffs. We explain how it falls short of what consumers expect, leading to widespread mis-selling and greenwashing. We shine a light on the current state of the market for green tariffs, which is overcomplicated by the broken system. And we set out what can be done to fix it, so that we can provide clarity to customers wishing to support clean electricity through their energy bills.





Additionality, or how
green is your tariff?

02



Additionality, or how green is your tariff?

When considering the “greenness” of an energy tariff – its renewable credentials – it is helpful to use the concept of ‘additionality’. This refers to the additional benefits delivered when a consumer is supplied energy through a green tariff. The concept is important as without it a customer’s choice has no wider positive impact, whilst they might believe that it does.

A simple way to judge an energy tariff’s additionality is the support it can provide for investment in new renewable generation capacity — and thus helping to meet the UK’s target of Net Zero greenhouse gas emissions by 2050. Alongside Government support mechanisms, an important source of investment support for small scale renewable generators is to sell their electricity through a long-term contract or Power Purchase Agreement (PPA). And with reductions to the Government support for small scale renewables, such as the removal of the Feed-in Tariff, market-based finance through PPAs is of increasing importance.

In addition, in the UK and EU countries, for each unit (MWh) of renewable electricity produced, the generator receives a certificate of origin to prove the authenticity of the associated renewable electricity. Typically, generators sell both the electricity output and accompanying certificates together via a PPA; certificates can then be resold on secondary markets without the original renewable electricity output.

To explain how green tariffs are regulated, we must look at condition 21D of the energy regulator Ofgem’s Supply Licence Conditions (SLC). This condition requires that any energy supplier offering an energy tariff with ‘an Environmental Claim to the effect that some or all of the electricity supplied under that tariff is generated from renewable sources’, must:



- hold the requisite number of Guarantees of Origin (GoOs) to support the volume of claimed renewable supply; and
- retire any associated Levy Exemption Certificates (LECs).

The Guarantees of Origin referred to here are certificates which are a tracking instrument for electricity generated by renewable sources. The scheme is a European directive (the EU Renewable Energy Directive 2009), administered in the UK by Ofgem. Certificates from renewable electricity generated in Great Britain are called Renewable Energy Guarantees of Origin, or REGOs, and those from elsewhere in Europe are simply GoOs. One REGO or GoO is issued for each megawatt hour (MWh) of electricity generated by a renewable source.

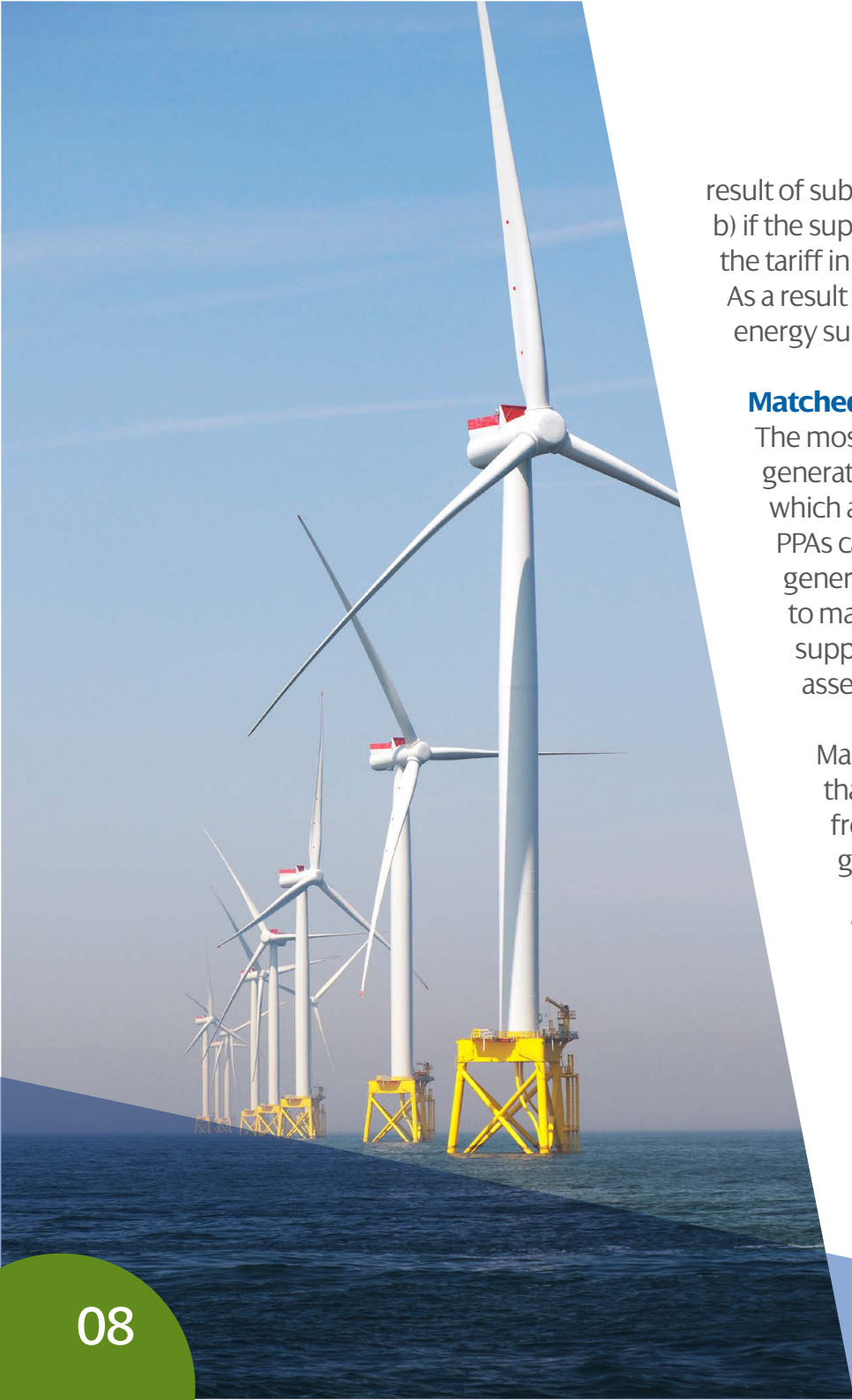
The Levy Exemption Certificates refer to a separate certification scheme which exempted renewable electricity from the Climate Change Levy (CCL). The reference to this scheme in the licence conditions is now obsolete as renewable generators ceased to be exempt from the CCL as of 2015. However, it was this change that opened a loophole to third party trading of REGOs and GoOs, making it simpler for energy suppliers claiming to offer '100% renewable electricity' to buy certificates without buying the renewable power they relate to.

It is also worth noting that licence condition 21.12 requires suppliers, if using GoOs from outside Great Britain, to hold evidence that the electricity the GoO relates to has actually been supplied in GB.

Further to the stipulations around renewable electricity supply, Ofgem also requires the following of suppliers in relation to any Environmental Claims:

- a) the supplier must ensure that the claimed environmental benefit is a result of consumers choosing to purchase the tariff and not solely brought about as a





result of subsidies, obligations or other mandatory mechanisms; or
b) if the supplier cannot comply with (a), publish a clear statement to the effect that purchasing the tariff in question will not produce an environmental benefit.
As a result of the lax rules in the supply licence, there are currently numerous ways in which energy suppliers can back an energy tariff marketed as renewable:

Matched PPAs

The most straightforward approach is to source electricity supplied from renewable generators via Power Purchase Agreements (PPAs), acquired with the associated REGOs which are then submitted to Ofgem as evidence of the supplier's annual fuel mix disclosure. PPAs can be either internal or external. Many energy suppliers own their own renewable generation assets, and consequentially may have PPAs within their operational structure to match the power those assets generate with the electricity their customers use. Some suppliers commit to investing revenue from customer bills into building more renewable assets, creating a vertically integrated model.

Many suppliers also hold PPAs with external generators, a long-term contract agreeing that the purchaser, in this case the energy supplier, will buy a set amount of electricity from the generator. Businesses and other organisations can also enter into PPAs with generators.

The PPA process has the benefit of simplicity through provenance. A customer can ask 'where does my renewable electricity come from?' and the energy supplier can point directly to the generators.

PPAs also provide direct financial support and certainty to generators. A PPA gives a guaranteed price to the generator, which would otherwise be at the whim of the wholesale market. Having a long-term agreement for the purchase of your





‘Give developers long term revenue certainty which in turn provides them with bankability.’

product has benefits before you start producing it too. If you are planning to build a wind or solar farm and are seeking investment, being able to evidence a PPA as a guarantee of future income stream can be crucial, even more so if seeking to do so outside of Government support schemes. As such it is widely agreed that this approach actively encourages growth in renewable generation. This was recently echoed by the Committee on Climate Change in its report on the Corporate Procurement of Renewable Energy, which discusses how long-term contracts will ‘give developers long term revenue certainty which in turns provides them with bankability.’⁴

Suppliers may also provide support and expertise in forecasting customer demand and renewable output, including predicting weather patterns impacting wind and solar output. For example, Ofgem found that the forecasting services provided by Good Energy protected generators from the risk produced by the variability of the weather and the power output of the renewable generators, enabling it to pay higher prices to generators which helps them to be financially viable and operate.⁵

These benefits for generators come at the cost of additional risk and complexity for the energy supplier. Trading electricity through PPAs requires expert teams to work closely with the generators. In the case of external PPAs, it also requires the supplier to take on the balance of market risk: if a supplier guarantees a preferential price per unit for the generator, it may end up paying above market rate if the wholesale market price decreases.

REGO backed wholesale power

As REGOs can be traded separately to the power they relate to, a practice widely adopted by suppliers claiming to offer ‘100% renewable’ electricity tariffs is to buy electricity on the wholesale market — a mix of whatever is on the grid at the time, including fossil fuels — and then ‘greenwash’ it with certificates acquired separately.



⁴ <https://www.theccc.org.uk/publication/corporate-procurement-of-renewable-energy-implications-and-considerations/> p.13

⁵ https://www.ofgem.gov.uk/system/files/docs/2019/08/renewable_derogation_letter_good_energy.pdf

The first issue with this approach is the lack of provenance. If a customer asks where their electricity comes from, a supplier may be able to say which generator produced the certificate, but not the power itself. It can show the receipt, but not the goods.

The more fundamental issue is with the value of the REGO certificates — unlike PPAs, they offer very little value back to renewable generators.

This is because given the abundance of renewable electricity generation, there is a surplus of REGOs. High supply leads to low cost, and even as demand has increased with the explosion in green tariffs, it has had little impact on the value of REGOs, which have only increased by a few pence.

At the current rate of around 50p per REGO, a 25-acre 5MW solar farm supplying enough electricity to power around 1,250 homes, would receive enough cash per year to cover the cost of cutting the hedges. An insubstantial amount that is far from assisting the business case in building a new generator. As such, green tariffs which are solely backed by REGOs do not provide additionality.

Creating REGO backed green tariffs is simple and low cost for energy suppliers. They can acquire REGOs very cheaply, without the risks of purchasing the associated power, creating a product that can be marketed as '100% renewable'. Even following Ofgem's current regulations, these tariffs should also include a disclaimer that they provide no environmental benefits, but this is rarely the case. The result is that greenwashed tariffs are perceived by consumers to be the same as PPA backed products.

European GoO backed wholesale power

Another method of providing a green tariff under the current system is to back wholesale power with Guarantees of Origin (GoOs) sourced elsewhere in Europe. This approach has the same flaws as REGO-only backed tariffs with regards to provenance and value. European GoOs are also low cost and provenance is even further muddled when suppliers are sourcing certificates from further afield

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across Europe. Though as noted suppliers are expected to be able to evidence the electricity has been supplied in the UK — although it is unclear how this is verified, if at all.

However, there is an additional flaw in how European GoOs can be deployed by UK energy suppliers, in that they can be used as evidence to exempt them from paying the mandatory support schemes for renewable generation.

The impacted schemes are the Feed-in Tariff (FiT) and Contracts for Difference (CfD). The Feed-in Tariff was created by the government in 2010 to support the uptake of small-scale renewable technologies among households and businesses. Although the scheme closed to new entrants in 2019, all generators receive financial support for 20 or 25 years. This is paid through a charge on energy suppliers.

The Contracts for Difference scheme is the government's ongoing financial support scheme for large-scale renewable generation. It provides a route to market for renewable projects where developers bid for government-backed contracts via an auction. To date, three auctions have led to over 11 gigawatts of clean power capacity winning support. A fourth auction round is planned for 2021 and the scheme is financed through the CfD Supplier Obligation.

By 'greenwashing' a tariff with European GoOs, suppliers are actually reducing the amount of support they are providing to the growth of UK renewable generation — the opposite of what a customer might reasonably expect their green tariff should do.

Good Energy's analysis found 57.9 million European GoOs in the UK market. Enough to greenwash over 20 million typical households' electricity supply and enable energy suppliers to avoid an estimated £126 million in support towards UK renewables.⁶



⁶ 'Renewable energy in Europe: An analysis of how UK energy suppliers use Guarantees of Origin certificates', Good Energy, October 2020, <https://www.goodenergy.co.uk/media/18730/renewable-certificates-in-europe-research-note.pdf>



Public Attitudes – what
do consumers expect?

03



3. Public Attitudes – what do consumers expect?

Consumers have become increasingly interested in green tariffs over recent years, with the proportion citing green energy as a reason for switching supplier now standing at 20%.⁷ If we are to achieve the UK's 2050 net zero target, it will be vital to harness the enthusiasm and purchasing power of consumers in support of decarbonisation.

With such a complex system creating a diverse array of approaches to the provision of green tariffs from energy suppliers, some distinctly greener than others, it is understandable that consumers are often unclear on the benefits their energy bills provide. But what do they want and expect from a green tariff?

Consumer research carried out for ScottishPower by independent polling company YouGov has confirmed the strength of feeling amongst consumers. In October 2020 ScottishPower commissioned YouGov to survey public attitudes to issues relating to greenwashing. Based on a weighted sample representative of GB consumers, YouGov's findings included:

- **Sourcing Renewable Electricity:** A majority of respondents (67%) said it was important that their supplier generated its own

renewable electricity and a significantly larger majority (75%) said it was important for their supplier to be transparent about renewable electricity purchased from other companies. Overall 71 % of respondents felt it was important that renewable electricity should come from generators in the UK.

- **Awareness of different Renewable Credentials:** Respondents were generally unaware of the difference between renewable electricity purchased directly from renewable generators and electricity that could be marketed as renewable due to the purchase of certificates of origin (REGOs). 60% of respondents did not understand the difference.
- **Consumer concern over greenwashing:** As part of the survey, the difference between direct procurement of electricity from renewable generators and the purchase of certificates of origin without the associated renewable electricity ("empty certificates") was explained. In light of this information a majority (66%) of respondents said they would be concerned to have signed up to a renewable electricity tariff and subsequently learn that it did not support renewable generation through the direct purchase of renewable electricity i.e. via PPAs.

⁷ Ofgem, Household Consumer Perceptions of the energy market, Quarter 3 2020, Fieldwork carried out in August & September 2020, page 38, https://www.ofgem.gov.uk/system/files/docs/2021/01/consumer_perceptions_of_the_energy_market_q3_2020.pdf



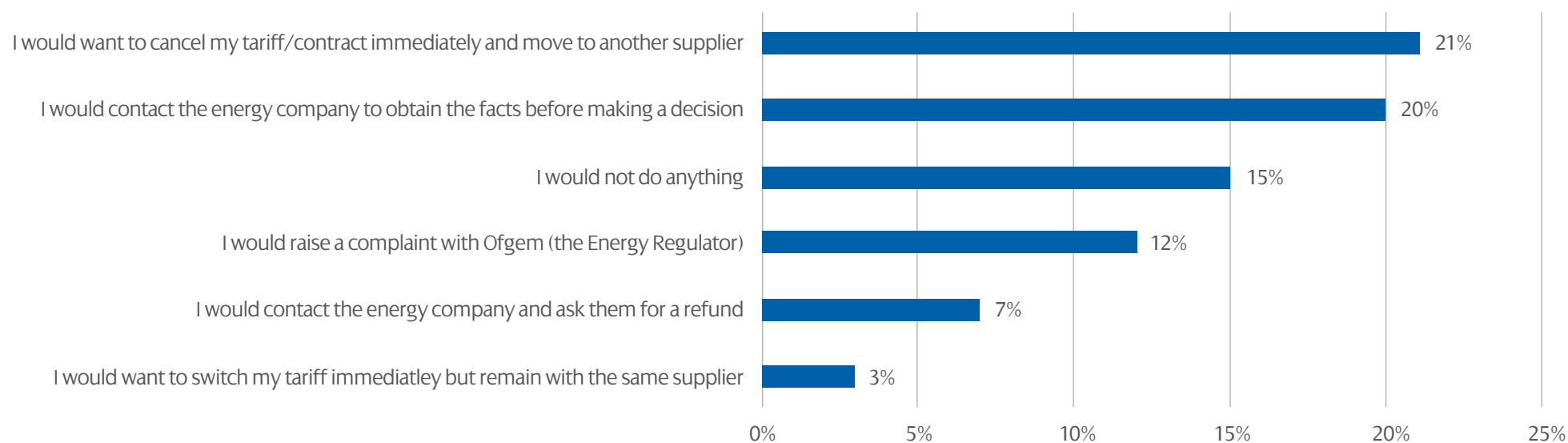
These findings suggest that a clear majority of consumers would be concerned to discover their renewable tariff was greenwashed.

Indeed, a majority of respondents said they would take action if they discovered their renewable tariff was greenwashed

(Figure 1) and only 15% said they would do nothing. The top two actions upon discovery of greenwashing were to cancel the tariff and switch supplier (21%) and contact the supplier to get more information about the greenwashed tariff before making a decision (20%).

Figure 1 – Consumer action on discovering greenwashing

For the following question, please imagine you had purchased a new green energy tariff from a UK energy supplier and you later found out the green tariffs sold to you were based on the purchases of excess REGO or equivalent EU certificates from outside the UK but that the supplier had not purchased the associated renewable electricity. Which ONE, if any, BEST describes how you would feel/what you would do? (Please select the option that best applies. If your answer doesn't appear in the list below, please type it in the "other" box).



Source: YouGov⁸ (chart excludes 'Don't Know/Other' responses)

⁸ Total sample size 2053 adults. Fieldwork undertaken 9-12 October 2020. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).



Good Energy research conducted with a representative sample of over 2,000 UK adults in November 2019 found similar consumer attitudes:

- 1. Consumers are increasingly concerned about climate change:** 61% of people agree that they are increasingly concerned about climate change, and even more are prepared to make lifestyle changes accordingly. 65% said they would be prepared to make changes to live more sustainably, including making the switch to a green energy supplier.
- 2. Consumers want green tariffs to support a clean energy transition:** The same figure who are prepared to make sustainable life changes, 65%, say that they would choose a green tariff if it supported our move to a new clean energy system. Given REGO-only backed tariffs do not do this, this indicates widespread confusion.
- 3. Consumers want to support local renewable generators:** Even more people, 71%, said that they would like to support UK renewable energy producers. This indicates that the European GoO system threatens to further erode consumer trust in the effects of green tariffs.

Meanwhile a recent survey conducted by Cornwall Insight⁹ indicates that 38% of consumers believe they are currently on a renewable energy tariff, with over half (51%) expecting to choose one next time they switch. Whilst this is unsurprising with the current market providing a large array of tariffs marketed as renewable at low cost, it is interesting to note that 26% of respondents say they are prepared to pay more for a green tariff.

The above polling results clearly demonstrate that:

- Consumers expect that if an electricity tariff is marketed as 'green' or 'renewable', the electricity supplied is purchased directly from renewable generators.
- Consumers would be seriously concerned to learn that the above is not true and their renewable tariff is greenwashed.

There is, therefore, a clear consumer detriment from the lack of transparency over green washing and the sources of electricity supplied through tariffs marketed as green.

⁹ <https://renews.biz/65229/survey-reveals-uk-support-for-renewable-energy-tariffs/>





How big a problem
is greenwashing?

04

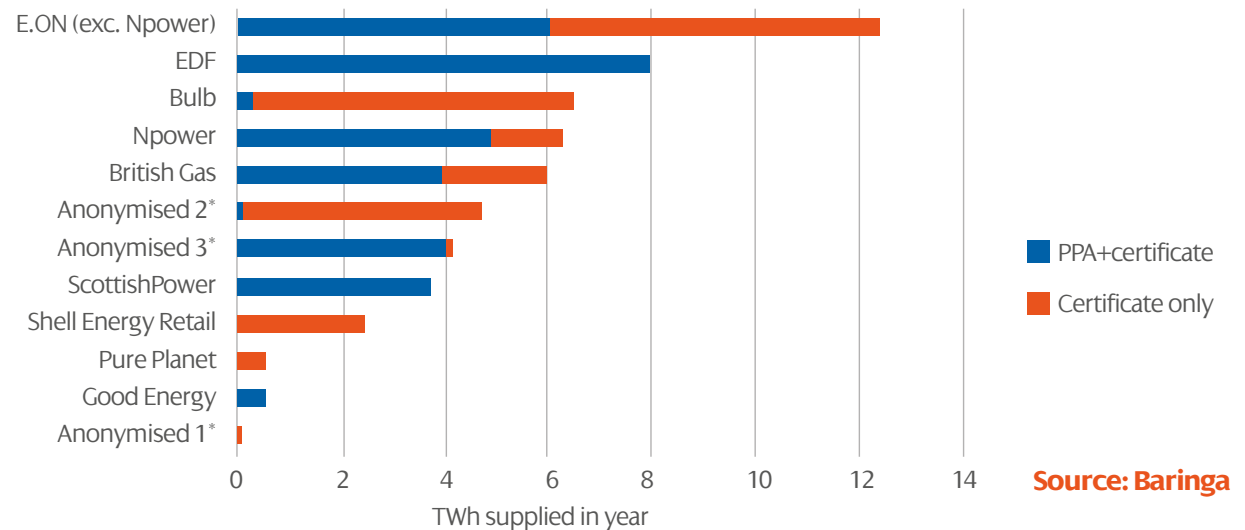


4. How big a problem is greenwashing?

How much greenwashing goes on?

The extent of greenwashing in the market today can be seen from Figure 2, which draws on new research by independent consultants Baringa.¹⁰ The chart shows where different suppliers actually source the electricity they market as 'green'. The blue bars show volumes of electricity sold under green tariffs that are backed by electricity sourced from UK generators backed by PPAs (genuinely green electricity). The orange bars show the volumes of electricity sold under green tariffs that are sourced on the brown electricity market (a mix of fossil, nuclear and renewable derived electricity) but greenwashed using cheap ('empty') certificates.


Figure 2 – Volumes of PPA-backed and certificate backed renewable energy marketed as blue



*We believe Anonymised Suppliers 2 and 3 are Octopus Energy and Smartest Energy respectively, based on publicly available data on REGO/GoO redemption and and retail market shares



10 'Renewable tariffs in the UK: what makes a tariff green?', Baringa, April 2021. <https://www.baringa.com/en/insights-news/points-of-view/renewable-tariffs-in-the-uk-what-makes-a-tariff-g/>

A photograph of several large white offshore wind turbines in the sea. The turbines are mounted on yellow and green metal structures. The sky is clear and blue, and the water is a deep blue. The image is partially obscured by a white diagonal line that separates the header from the main text area.

Based on the sample of suppliers covered by the chart, greenwashing accounts for 25 TWh out of a total 71 TWh (35%) of electricity marketed as green. The worst culprits for greenwashing (highest proportion of energy sold that is greenwashed) are **Bulb, Anonymised Supplier 2 (who we believe to be Octopus Energy)¹¹, Shell Energy and Pure Planet.**

Which are the greenest suppliers?

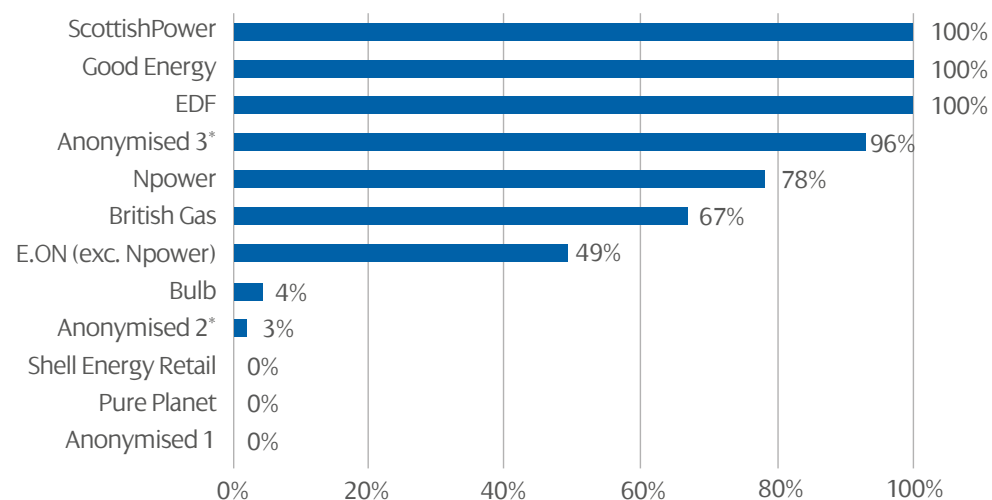
Consumers who wish to purchase genuinely green electricity need to consider where a supplier sources the energy that it is marketing as green. As shown in Figure 3 below, there are three suppliers who offer genuinely green tariffs sourced 100% from UK-based renewable generators via PPAs: **ScottishPower, Good Energy, and EdF.**

Consumers can have much greater confidence in purchasing from these suppliers that the electricity will have come from UK-based renewables and that their purchasing decision will have contributed towards the decarbonisation of our electricity system – either due to their supplier building their own generation assets, or helping others build them where they would not have been able to without a PPA. Scottish Power, for example, plans to invest more than £3.7 billion between 2020 and 2025 in new UK renewable capacity, including construction of around 2.1 GW of innovative onshore wind, solar PV and battery storage projects to establish hybrid ‘energy parks’ - as well as developing plans for a 3.1 GW offshore East Anglia Hub. Good Energy has recently signed a PPA with Flintshire County Council to take the power from two new, subsidy-free solar sites.



¹¹ This belief is based on publicly available data on REGO/GoO redemption and retail market shares.

Figure 3 - Proportion of electricity supplied through tariffs marketed as green that is genuinely green (backed by both PPAs and Certificates of Origin)

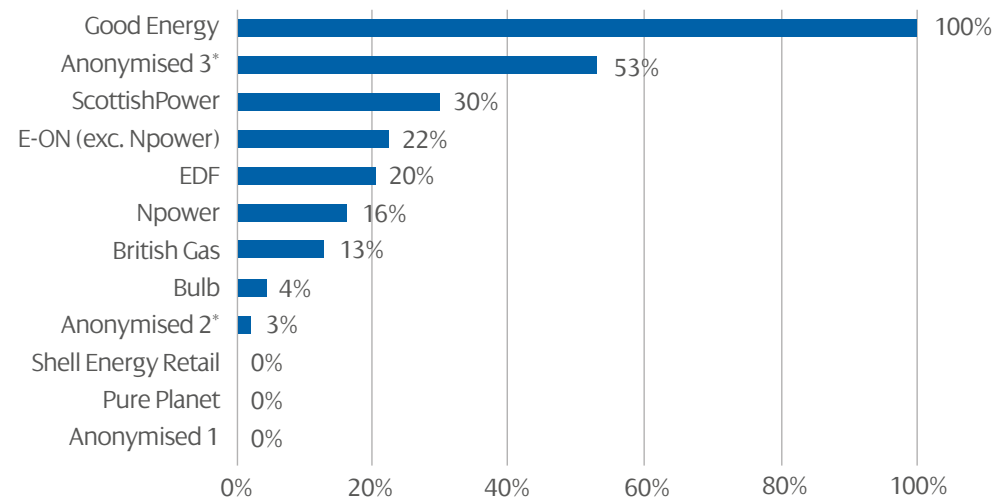


*We believe Anonymised Suppliers 2 and 3 are Octopus Energy and Smartest Energy respectively, based on publicly available data on REGO/GoO redemption and retail market shares

Source: Baringa

Finally, Figure 4 shows the percentage of total energy supplied that is genuinely green (backed by both PPAs and Certificates of Origin) – where the top three performing suppliers are **Good Energy, Anonymised Supplier 3 (who we believe to be Smartest Energy)¹² and ScottishPower.**

Figure 4 - Proportion of electricity supplied that is genuinely green (backed by both PPAs and Certificates of Origin)



*We believe Anonymised Suppliers 2 and 3 are Octopus Energy and Smartest Energy respectively, based on publicly available data on REGO/GoO redemption and retail market shares

Source: Baringa



¹² This belief is based on publicly available data on REGO/GoO redemptions and retail market shares.

A man with a beard and a young girl are sitting at a desk, looking at a laptop screen. The man is smiling and pointing at the screen, while the girl is looking intently. A woman is standing in the background, also looking at the screen. The scene is brightly lit, suggesting a sunny day.

Why does greenwashing matter?

05



Why does greenwashing matter?

As discussed above (Section 3) there is evidence that many consumers feel increasingly strongly about buying green electricity sourced from UK renewable generators and choose their supplier accordingly. At ScottishPower and Good Energy, we consider it disgraceful that suppliers are permitted to get away with greenwashing their tariffs and making misleading claims to their customers. It is leading to:

- wasted opportunities to harness the power of consumer purchasing decisions to support further deployment of renewable energy in the UK
- consumer distress and dissatisfaction at having been misled
- more widely, potential mistrust and disillusionment with energy suppliers, at a time when it is vitally important that consumers can trust what their suppliers are telling them about decarbonisation.

As noted above, PPAs offer significantly greater support to renewables developers than mere purchase of REGOs. The long-term nature of the PPA contract is crucial to ensuring the financeability of projects. And when suppliers enter into PPAs with smaller developers they typically provide a range of additional support services to maximise commercial value including forecasting and trading to minimise imbalance. Unless consumers can actively choose PPA-backed renewable energy, the power of consumer choice to support renewables deployment is blunted.





How to address the
problem of greenwashing

06



How to address the problem of greenwashing

ScottishPower and Good Energy are calling on the Government and Ofgem to take urgent action to address the problem of greenwashing and to allow consumers to make fully informed choices of electricity tariff. We have identified four areas where we recommend that action is taken.

- enhanced transparency of green claims
- enhanced Fuel Mix Disclosure publication requirements
- clearer guidance on additionality in SLC 21D (Tariffs with Environmental Claims)
- closing the loophole whereby CfD and FiT costs can be avoided using GoOs

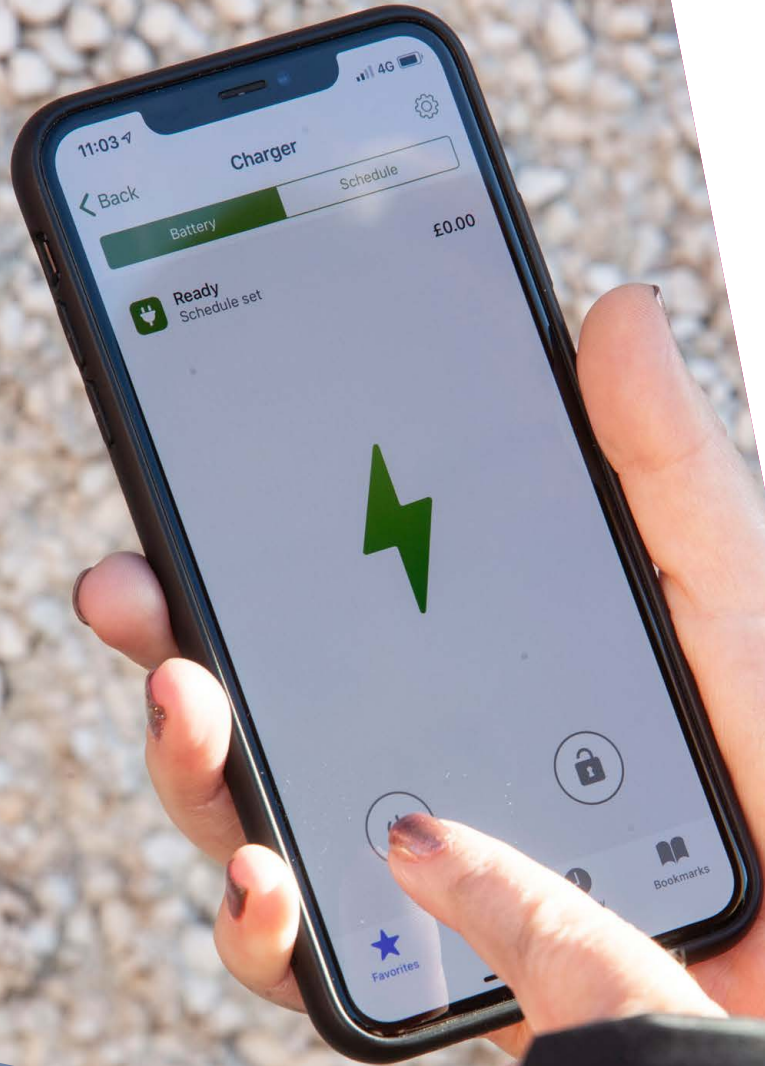
These are explained below.

Enhanced transparency of green claims

Given the risk of consumer detriment highlighted above, BEIS and Ofgem should move urgently to make it clear to suppliers that when they make a green claim about an electricity tariff, they should provide full disclosure to consumers about the basis for that claim, including disclosing what percentage of energy sold under the tariff will be backed by PPAs (plus associated certificates) and how much by empty certificates alone.

We believe Ofgem could take immediate action by enforcing the relevant principles-based supply licence conditions (SLC 0.3(b) & SLC25.4) given the widespread evidence that consumers are not properly understanding marketing claims. This should be reinforced by tightening up the rules and guidance around green marketing (SCL21D).





Enhanced Fuel Mix Disclosure publication requirements

Complementing the above, BEIS and Ofgem should reform the supply licence obligations relating to fuel mix disclosure (SLC21). SLC21 was introduced to transpose the Fuel Mix Disclosure (FMD) requirements under Article 3(6) of the Internal Market in Electricity Directive (2003/54/EC)¹³ and the REGO requirements under Article 15 of Renewable Energy Directive (2009/28/EC).¹⁴ These EU requirements were originally intended to help consumer choice but now risk giving green endorsement for tariffs which offer close to zero environmental benefit. At worst, they give endorsement for tariffs backed by purchase of European 'Guarantee of Origin' (GoO) certificates which allow suppliers to avoid supporting UK renewables.

BEIS will need to consider whether the UK has the flexibility post-Brexit to update these rules unilaterally for the UK. We believe Fuel Mix Disclosure regulations should be altered so that whenever suppliers purchase REGOs for use in their Fuel Mix, they are also required to purchase the power they pertain to. That way, suppliers would be prevented from buying fossil fuel power and 'greenwashing' it with separately purchased REGOs, and customers could buy in confidence that their bills were providing support to and encouraging the building of renewable energy generation.¹⁵

Clearer guidance on additionality in SLC 21D (Tariffs with Environmental Claims)

Requiring full disclosure (as suggested above) is a necessary step but may not be sufficient as it still places reliance on consumers being able to understand the difference between PPA-backed and certificate-backed tariffs. Whilst other market participants (such as environmental NGOs and consumer champions) can play a part in educating consumers, there is also an important role for Government and Ofgem to play in ensuring that suppliers adhere to certain minimum standards in the information they provide around the relative environmental benefits of tariffs.

¹³ https://eur-lex.europa.eu/resource.html?uri=cellar:caeb5f68-61fd-4ea8-b3b5-00e692b1013c.0004.02/DOC_1&format=PDF

¹⁴ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0028&from=EN>

¹⁵ This would reinstate a link between power and provenance which used to exist before Levy Exemption Certificates (LECs) were scrapped in 2015.



The concept of 'additionality' referred to in SLC21D (and the subject of more detailed guidance in the context of SLC28AD.24-25) is a good starting point, but currently suffers from inadequate guidance and inadequate enforcement. Ofgem should tighten the guidance for SLC 21D to specify more objective/robust criteria for additionality, drawing on work done for SLC28AD.24-25. This could be complemented by a requirement for external audit/certification of environmental claims.

Close loophole whereby CfD and FiT costs can be avoided using GoOs

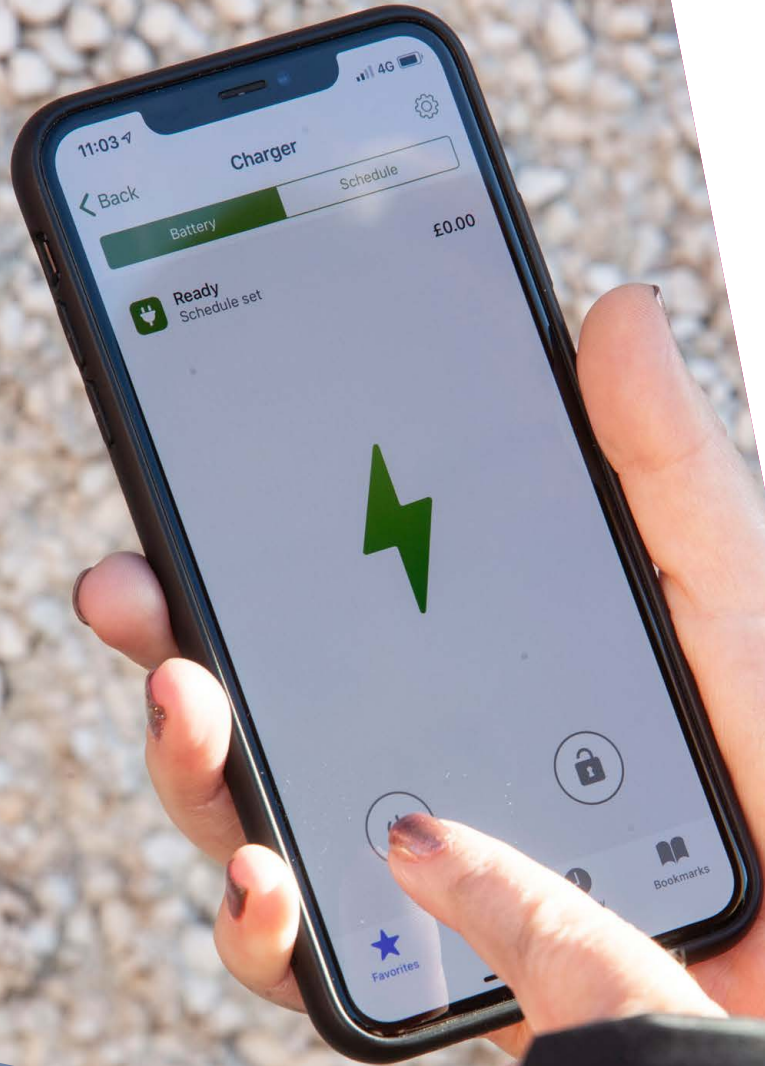
The loophole by which UK suppliers can avoid paying their fair share of environmental levies by purchasing foreign originated certificates creates significant market distortions favouring those larger suppliers who choose to exploit the loophole (and have the necessary procurement capabilities) and increasing the cost of the levies to suppliers who cannot (or choose not to) exploit the loophole. Suppliers currently pay around £45 per annum per domestic electricity customer to support renewable generation via levies to support the Government's Contracts for Difference (CfD) and Feed in Tariff (FiT) schemes, but the cost to suppliers who choose to avoid these levy payments by purchasing foreign Guarantee of Origin (GoO) certificates was less than £8 pa per customer in 2019/20.¹⁶

The exemption from the FiT levy for European renewable electricity was introduced in 2010 to ensure the scheme did not fall foul of EU State Aid laws.¹⁷

¹⁶ Based on typical GoO price of ~ £0.70/MWh in 2020, 3.57 pro rata reduction in benefits in 2019/20 due to cap on exempt supply and 2.9 MWh typical domestic electricity consumption.

¹⁷ Article 30 (customs duties on imports) or Article 110 (discriminatory taxes) of the Treaty of the Functioning of the European Union (Review of the Feed-in Tariffs Scheme. DECC, 17 December 2015, para 6.18 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/487300/FITs_Review_Govt_response_Final.pdf). Similarly, the EU's State Aid approval for the CfD scheme in 2014 noted that the proposed exemptions for imported renewable electricity would alleviate any concern regarding compliance with Article 30 and 110 TFEU (State aid SA.36196 (2014/N) – UK: Electricity Market Reform - Contract for Difference for Renewables, 23 July 2014, para 90, https://ec.europa.eu/competition/state_aid/cases/253263/253263_1583351_110_2.pdf).





When DECC reviewed the FiT scheme in 2015 it noted that the resulting incentive for suppliers to source an increasing amount of renewable energy from overseas could distort competition by transferring extra costs onto small suppliers that can less easily contract with overseas generators, and concluded that capping the amount of imported electricity that could qualify for exemptions would be entirely within scope of EU law,¹⁸ noting that the CfD State Aid approval for the CfD scheme had explicitly accepted a cap on imports (growing by 10% each year) to mitigate such distortions.¹⁹

BEIS should give careful consideration as to whether, following Brexit, and given the continuing distortions, the exemptions could be removed or reduced (eg by lowering the level of the cap).



18 DECC FIT Review, para 6.18-6.19
19 DECC FIT Review, para 6.18-6.19



Conclusion

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7. Conclusion

The demand for renewable energy among consumers is growing fast – a trend which will only accelerate.

As more and more people recognise that they can play a significant role in the action required to decarbonise our energy system and wider economy, the sector needs to be honest about what it is that we are offering them.

The current situation, where millions of customers are being mis-sold tariffs with little to no environmental benefit, needs to change.

If implemented, the solutions we have outlined above could result in a more confident consumer, more ready and willing to trust that their bills are contributing to a cleaner, greener tomorrow.





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