Renewable Energy Tariffs: The Problem of Greenwashing

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Renewable Energy Tariffs:
The Problem of Greenwashing

Foreword

Concern about the environment is at record levels amongst UK consumers. Many people want to do the right thing and are unsure how best to reduce their environmental footprint. Consequently, they look to businesses and the government for help.

Given that electricity comprises around one-quarter of UK greenhouse gas emissions, it is natural that consumers would look for green tariffs to reduce their household and business carbon footprint.

As a consumer, I think it is reasonable that if I choose a green electricity tariff, the company should be able to point to the renewable power plants from which it buys its power. That way, I know my hard-earned cash is supporting renewable power and incentivising more of the same, and the economic growth and jobs that come with it.

I think the market for green tariffs should be simple, transparent, and trustworthy; and that is why I'm supporting Good Energy in their campaign on this.

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Background

The energy system is in transition. When the market was liberalised in 2000, just 2% of electricity came from renewable sources, today (2019) this has grown to 37%. Over this period society has also shifted. Concern for climate change has moved from a niche consideration to a mainstream issue.

According to IPSOS Mori a record majority of UK consumers are 'very concerned' about climate change. More and more people are looking for ways that they can help the planet in their daily lives. Good Energy's research shows not only are 61% of UK increasingly concerned about climate change, 65% are prepared to make changes to their lifestyle to live more sustainably. The same figure, 65%, agree that they would choose a green tariff if it supported our move to a new clean energy system.

In recent years, the energy retail market has also begun to shift, with over 50 new energy suppliers entering the market in the last 5 years. This is a varied group, some of which are offering unique technical products, others offering a distinct customer experience. The majority of them are small, supplying a few thousand customers each, however a handful have grown to enormous size very quickly.

However, there is a unifying theme. Almost all of them have sought to capitalise on the growing public concern for the environment – marketing themselves as "100% renewable" or otherwise supporting the fight against climate change. This messaging can be very compelling, offering the consumer a chance to make a simple change with a big impact. However, customers are being misled by 'green' tariffs which offer little environmental benefit.

What makes a tariff 'renewable'?

There are three different types of 100% renewable tariff in the market today:

1. Investment tariffs – The energy supplier uses the funds from customer bills to directly invest in new renewable generation sites.
2. Partnership tariffs – based on the idea that, rather than acting alone, supporting a community of renewable energy developers is the fastest route to decarbonisation. By buying power directly from renewable generators at a fair price - helping to create a market for green power, and giving a route to market to smaller generators that might otherwise have no place to sell their power to.
3. Certificate-backed tariffs – Buying little or no renewable power, but acquiring inexpensive certificates, either REGOs or European Guarantees of Origin, that are issued to renewable generators when they generate power.

Some suppliers apply a mix of these different approaches, sometimes in the same tariff.

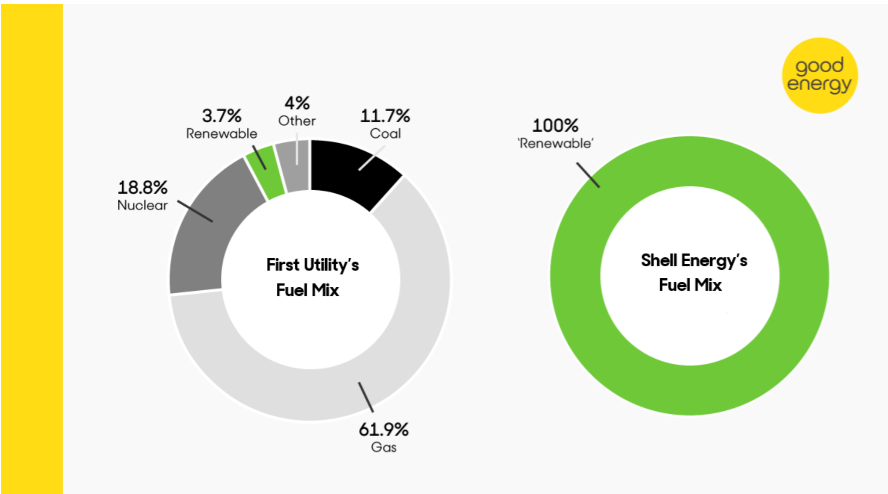
The first two routes support the growth of renewable generation in the UK – a fact independently verified by OFGEM by virtue of awarding suppliers exemption from the energy price cap on this basis. The third route however, known as 'greenwashing', is not only misleading customers, but also holding back the growth of renewable energy in the UK.

What is 'greenwashing'?

In the context of energy tariffs, greenwashing is the act of purchasing certificates (known as REGOs) by a supplier without buying the power they relate to. These certificates are then combined with power bought from the wholesale market (an anonymous mix or fossil, renewable, and nuclear power), to make a supplier look green, when they may not have actually bought a single unit of power from a renewable generator.

What are REGOs?

The REGOs (Renewable Energy Guarantee of Origin) certificate scheme facilitates the UK's compliance with the EU Renewable Energy Directive 2009 (2009/29/EC). This was designed to improve transparency in the market, allowing consumers to understand the provenance of the power they are buying. The problem is, it doesn't – it simply reflects the buying and selling of these certificates. Currently there is no requirement for REGOs to travel with the power with which they were generated. This means that to claim to be "100% renewable", a supplier doesn't need to hold a single contract with a solar farm, or buy a single MWh of power from a wind-farm – all they do is buy enough REGOs to match their customers' demand.



When First Utility rebranded as Shell Energy, their fuel mix became 100% renewable overnight.

Further to this, suppliers can use guarantees of origin, GoOs, sourced from elsewhere in Europe to greenwash their fuel mix. Not only does this not involve contracting with any renewable generators, it bears no relation to the UK energy system. Yet suppliers doing this can use the mechanism to exempt themselves from paying portions of their renewable obligations which are designed to support the growth of renewables.

Does this allow double-counting?

No, and Yes.

No – Each REGO can only be used by one supplier, and demonstrates that a unit of renewable power came onto the system somewhere. Even if they don't buy the power, and just buy the "greenness" (which is in effect what the REGO represents), they are preventing the supplier who does buy the power from presenting it as green.

However…

Yes - If, for example, a large tech company marketed itself as buying only renewable power, such as through a sleeved PPA, it wouldn't necessarily need to buy the REGOs too because its buying direct from the generator. The generator could then sell REGOs onto another supplier. The generator is not required under its licence to use REGOs to prove the delivery of renewable energy.

Additionally, REGOs can come from anywhere in Europe. The different regimes of how REGOS can be used to back renewables tariffs is not standardised across Europe and each country deals with this differently. There is therefore the opportunity to double sell, once in the country of origin, and again into the UK market.

What does this mean for the average customer?

This is a clear case of mis-selling. As Good Energy's research shows, most consumers will switch to a green tariff because they wish to support the transition to a cleaner energy system. Most customers expect their bills to support the growth of renewable power, but instead they are being used to grow private businesses.

Some customers may choose a green tariff under the belief that doing so will mean that enough renewable power will be put into the grid to match their own energy use, which is broadly what REGO backed tariffs achieve. However, customers don't need to sign up to a "renewable" supplier to receive that assurance. Because there already exists more than enough renewable power going into the grid each year to match what every single household uses, and this has been the case since 2018[1].

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[1] Domestic Electricity demand in 2018 – 105.1TWh, Renewable Electricity Generation in 2018 – 110 TWh – BEIS Statistics

If, however, an environmentally minded customer chooses a 100% renewable tariff because they support renewable generation, and want there to be more of it, then they need something better than a REGO-backed tariff.

These environmentally minded customers are likely to choose a tariff made up of REGO-backed wholesale power, because to the average customer (and even many in the know) they look for all intents and purposes the same as the tariffs genuinely supporting growth of renewables. Not only does this not support renewables, it is actively detracting from support that might otherwise have been given had the customers chosen a genuinely green tariff.

What are the counter arguments?

A common response from suppliers which greenwash is that REGOs have a market value, and so anyone who buys a REGO-backed tariff is sending more money back to renewable generators than someone on a standard brown tariff. This is true, but it's a question of degrees. As with any market, if supply is high, price tends to be low.

Britain has made huge strides in deploying more and more renewable power, to the point where it now delivers over 37% of all of Britain's power. However, the number of customers who are actually on green tariffs is far smaller. This means there is significantly greater supply of REGOs than demand for them – making them very cheap. Currently to buy enough REGOs to match the typical domestic customers' demand, would cost about £1.50 per household per year. This inevitably provides a very small revenue stream to generators: for an average 5-megawatt solar site, this is just about enough to pay to cut the hedges around the site each year.

Or to put it another way, a good rule of thumb for building a solar farm is that each megawatt of installed capacity will cost around £1million, so £1.50 would buy you a 1.5 watt solar farm (there are one million watts in one megawatt) – which could comfortably fit in the palm of your hand – and even on the sunniest of days couldn't produce enough power to charge your phone. Greenwash suppliers may offer the counter argument that REGOs are not generators' only revenue source. This is true, but when the financial support offered via the REGO mechanism is this minimal, and it is the only thing these greenwash suppliers are doing in addition to their existing obligations (and sometimes in place of), it cannot be justifiably used to tell customers they are supporting renewables.

Suppliers often argue that as more customers switch to '100% renewable' tariffs, the cost of certificates will increase, and, therefore, provide greater income for generators. This argument is flawed for the following reasons:

1. The surplus in REGO certificates is too large to significantly impact the REGO price. The value of a REGO has only increased a few pence in recent years, even though millions more customers have joined REGO-only tariffs.

2. REGOs were never designed to offer direct financial support to generators. If suppliers were serious about supporting renewable generators they would invest in existing and efficient market tools, such as Power Purchase Agreements (PPAs), to achieve this end.

The other thing a greenwash supplier will tell you is that the REGOs guarantee that the power is going into the grid, and that it isn't being double-counted. However as set out above, a domestic customer doesn't need a REGO to know there's enough power going in for them, and a REGO doesn't necessarily prevent double-counting.

What is OFGEM's position on greenwashing?

The price cap introduced in 2019 led OFGEM to conduct a large amount of work to understand the different types of green tariff, and the true value that they provide. This led them to publish the following statement:

> *We do not believe that a 100% REGO-backed tariff in itself offers substantial environmental benefits…*[2]

OFGEM's position has continued to evolve as concern around greenwashed tariffs has grown. Its 2020 Decarbonisation Action Plan stated:

> *Renewable or 'green' energy tariffs are increasingly popular, as more and more consumers seek to play a role in tackling climate change. It is critical that consumers can trust that tariffs marketed as green will in fact make the expected positive impact for the planet, for example by stimulating additional investment in renewable generation. We are aware of growing concerns about 'greenwashing', where the environmental impact of a particular tariff or supplier is overstated. We expect suppliers to be transparent about what constitutes a 'green tariff' and we will undertake work to ensure that consumers are not misled.*

[2] Default Tariff Cap Statutory Consultation, Appendix 10 – Exemptions p.15

The Solution

This is a case of consumer mis-selling and it needs to be addressed. Not all suppliers are offering the same product and we need to be able to tell the difference.

OFGEM's commitment to reform the market is incredibly welcome, but the longer this takes, the more customers are deceived, and the longer the delay to the decarbonisation of the energy system.

We are calling for urgent reform across two key areas:

1. Update Evidence of Supply

Under the current licensing condition, (21D, "Tariffs with Environmental Claims") suppliers are required to evidence that the electricity under a green tariff has come from renewable sources.

One of the requirements is to "*retire any associated Levy Exemption Certificates (LECs)*".

This clause is now out-of-date as it refers to the now defunct period when renewable generators were exempt from paying the Climate Change Levy. LECs were designed so that suppliers would only receive LECs if they procured renewable power through a direct PPA with a generator. In essence, LECs were "stapled" to the power to which they related. This original clause shows that that OFGEM recognises the importance of Power Purchase Agreements in evidencing environmental claims on green tariffs and preventing double counting, in particular.

The removal of LECs has allowed energy suppliers to use an environmental loophole and 'evidence' their environmental claims without having to buy renewable power.

We are calling on OFGEM to update the licensing condition to reinstate the link between PPAs and customers. No tariff should be marketed as 100% renewable unless the supplier is buying that power from a renewable generator.

2. Enforce Additionality Claims

A second requirement under the License Condition 21D (Environmental Tariffs) is for suppliers to show that a domestic customer's choice to join a green tariff "results in an additional benefit to the environment", above and beyond existing obligations created by the government's various environmental schemes.

The regulator does not define what this could look like but expects suppliers to find out what their customers would expect when it comes to additionality. Some suppliers, such as Sainsbury's Energy, are clear that their tariffs do not provide this benefit. For example:

For Sainsbury's Energy Fix & Reward tariffs we do not currently offer…additional environmental benefits.[3]

Under the original accreditation managed by OFGEM, there was clear guidance on additionality, and a mechanism to be able to audit that data. However, without any form of enforcement or audit, the clause has allowed suppliers to offer very loose interpretations; for example, by making a small, one-off donation to an environmental charity, or by planting a number of trees.

We are calling on OFGEM to enforce this clause by requiring any environmental claim to be audited by either an independent body or OFGEM, outlining what qualifies as additionality, and creating a clear threshold for compliance in a similar way to the exemptions under the Price Cap for green tariffs.

[3] Sainsbury's Energy – 100% Renewable Electricity

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