Path to Zero.

Making energy work better for people and the planet.

Join us on the Path to Zero.

Contents

Foreword by Raman Bhatia

I came to work for OVO because of its Plan Zero strategy. It was clear to me that OVO had a compelling mission to cut carbon emissions and fight the climate crisis. I knew there would be no better company to join if I wanted to make a real difference.

It's a huge responsibility to lead OVO through such an extraordinary time of change. The urgent need to decarbonise coupled with a once-in-a-lifetime fossil fuel crisis, which is impacting our society in so many ways, has demonstrated the vital role energy plays in people's lives.

We need to act now to change things for the better. Reaching net zero is no easy task. It will favour disruption and innovation over tradition and caution. This is what OVO was born to do. We can't be complacent. Sustainability has become a marketing tool and customers are rightly suspicious. It's losing its meaning and, crucially, it's not getting us to net zero.

Energy today is a huge source of stress for both people and the environment. But at OVO, we've always believed there's a better way. One that's better for your wallet - and better for the planet. **That's why we're moving beyond selling "renewable electricity" tariffs backed by Renewable Energy Guarantee of Origin certificates (REGOs) as standard, and we're helping every home on the Path to Zero.** With a toolkit of smart tech to choose from and our expert teams by your side, we can help you take steps to reduce your energy bills and our collective carbon footprint. So, whether you're just getting started or well on your way, join us on the path to energy that works better for you, your wallet, and the planet.

Over the coming months, you'll see how we're changing what we do to meet that goal. We can't do it alone, so I want to extend my thanks to the organisations and individuals who we consulted with on our mission: Friends of the Earth, Cornwall Insight, Ethical Consumer, and Energy Systems Catapult.

This paper sets out some of the reforms needed in the REGOs and green tariff markets – to create a credible choice for consumers and build the foundations for a more sustainable society. It will mean making changes that reach into every part of energy consumption – and ending our reliance on fossil fuels for heating and power, once and for all. I hope you will support us on this mission.

Raman Bhatia,
CEO of OVO

Executive summary

The energy crisis is the wake up call we need to fix our broken system.

We're living through the most significant energy crisis in modern times. It's caused unprecedented and complex challenges, which have touched every part of our society. In the UK, the crisis exposed the weaknesses in our energy system and in the very homes we live in. Our overreliance on fossil fuels, coupled with high energy bills and the leakiest homes in Europe[1], means there's never been a more urgent need to reform the system. So that it works better for people and the planet.

To help fix our energy system and reach net zero, green energy needs to change.

Historically, OVO Energy has offered 100% renewable electricity tariffs by buying Renewable Energy Guarantee of Origin certificates (REGOs).

REGOs are a bona fide mechanism for matching renewable energy generated with demand and they're regulated by Ofgem. But they're not as meaningful as they could be, in terms of their actual impact on the environment. And they're expected to cost the UK economy £1.4bn a year[2]. We commissioned Cornwall Insight to do extensive research on how effective REGOs are at driving progress towards net zero and find out whether this money could be better spent on other decarbonisation measures.

REGOs are ineffective at incentivising more renewable energy being built in the UK.

Cornwall Insight found that UK Government subsidy mechanisms have led to 95% of renewable generation in the UK to date. The Contracts for Difference scheme (CfD) is expected to subsidise the majority of future renewable generation and enable the UK to fully decarbonise the power sector. Just by using electricity, consumers are already supporting the build out of renewable power through social and environmental obligation costs – as these are paid for already via their energy bills[3].

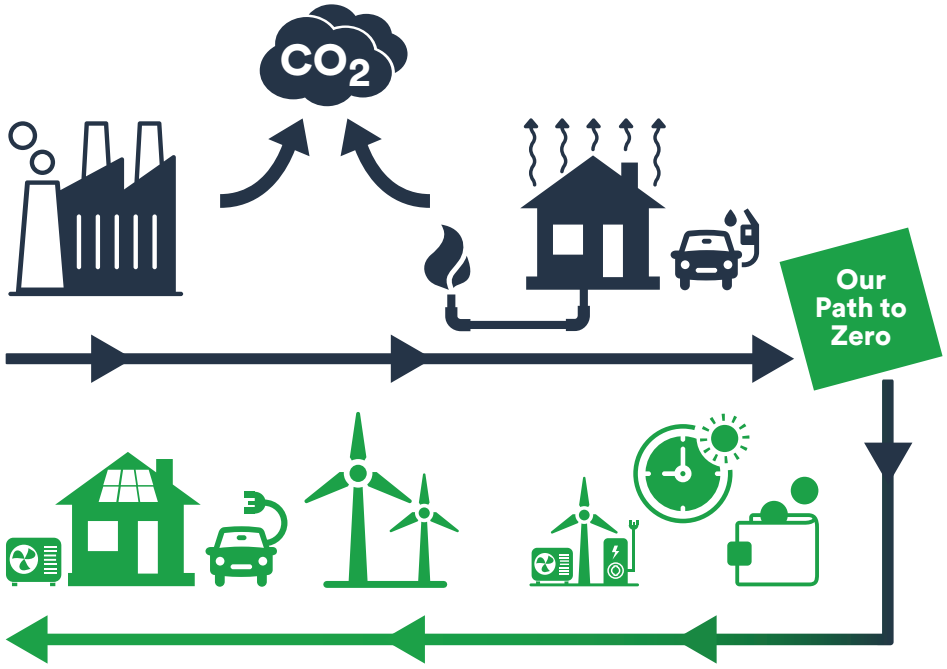
Consumers think they're getting 100% renewable electricity when they're not.

We conducted additional research to see what consumers think they're getting from their tariff. The findings showed that consumers on a 100% renewable electricity tariff believe their tariff is driving additional renewable generation capacity, and the Cornwall Insight research shows that this isn't the case..

This misconception is damaging for two key reasons. Firstly, for the global efforts to decarbonise and, secondly, for building trust in the energy sector. That's why OVO has set out the Path to Zero. It's our new way of supporting decarbonisation – to get net zero back on track and help customers reduce their emissions in the home.

Path to Zero.

Instead of offering "100% renewable electricity" tariffs backed by REGO certificates, OVO has evolved our energy offer to help customers on the Path to Zero. This means helping them understand the steps they can take to cut their bills and cut carbon – whether they're on the first step or already know lots about their energy use.



OVO's Path to Zero aims to support customers on their unique pathways to a net zero home of the future. This path can be split into three main phases:

Save: The UK has the least energy efficient homes in Europe. By upgrading the physical fabric of their homes as well as nudging more efficient behaviours, we're helping our customers get the most out of each kWh of power flowing into their homes – saving them money at the same time.

Shift: As the grid decarbonises, we'll rely more on intermittent renewable energy generation. Therefore, we need to encourage customers to move consumption from periods of low renewable output to periods of high renewable output.

Transition: We need to stop using fossil fuels for our transport, heating, and power systems to reach net zero. This means incentivising the build out of additional renewable generation assets, and going electric for our heating and transport.

To make it clear to consumers what they can contribute to net zero, we're outlining a series of REGO and green tariff market reforms that need to take place. They're based on the following three principles:

1. Tariffs that make environmental claims need to be transparent and comparable, so consumers can make informed choices.
2. Renewable tariffs must support additional renewable power generation and carbon savings.
3. Tariffs that make an environmental claim must provide a genuine environmental benefit. For example, rewarding consumers for shifting consumption to periods of lower carbon intensity, providing consumers with energy efficiency measures, or support with fuel switching.

Policy should first reform the REGO system and then the green tariff market to meet these principles.

1. Reform the REGO system over time so that only new and non-subsidised renewable power projects can receive REGO certificates.

For generators, this means only those without a CfD or a government contract for subsidies can receive REGOs. This would reduce the number of REGOs in the market, so they attract a significant premium and provide a genuine revenue stream to the generator for project financing – helping to attract investment.

For energy suppliers, it means that to offer "renewable electricity" tariffs they would have to enter Power Purchase Agreements (PPAs) with renewable generators, which would otherwise not be coming onto the grid, and use their REGOs. We can refer to these REGOs as "subsidy free" due to the absence of other support schemes contributing to the projects' revenue stream.

Reform of the REGO system would result in the tariffs marketed as "renewable electricity" actually supporting new incremental renewable energy generation for the UK grid. With that will come additional carbon savings.

2. Reform the green tariff market by changing the definition of green to include all of the initiatives and behaviours needed to meet net zero.

A kitemark scheme should be established to provide a meaningful way for consumers to differentiate between standard tariffs and those that support decarbonisation. The design of the kitemark should be broad enough to cover all the ways that consumers can support net zero, including:

- Saving energy through behavioural changes and upgrades to the physical fabric of the home
- Shifting the time they're using energy
- Transition away from fossil fuels to renewable electricity

Tariffs marketed as "renewable" would need to be based on additional subsidy-free renewables, in order to be eligible for the kitemark (certified via reformed REGOs).

It's up to us to help consumers make the best choices.

Reaching net zero isn't going to be easy. It will take constant innovation – and businesses, government, and regulators will need to remain open to continuous improvement. At the same time, consumers need clarity and credible ways to support the global effort to decarbonise.

Developing a clear and comprehensive plan to reform the REGO system and the way green tariffs are marketed will support the energy transition and the decarbonisation of heat, as well as building trust among consumers. All of these are paramount if we, as a nation, are to reach net zero.

Introduction

An opportunity to reset.

The energy crisis has exposed the fragility of our global energy system. While this is undoubtedly a global crisis, evidence suggests countries with more renewable energy sources, and more energy efficient homes, were more resilient at withstanding price and supply volatility[4].

In the UK, weaknesses in our energy system arguably exacerbated the impact of the crisis. We have the oldest and leakiest homes in Europe[5], losing 3°C every 5 hours[6] – meaning households struggle to retain warmth. We also rely comparatively highly on natural gas to heat our homes, with 85% of households having gas boilers. In Germany, that figure is about 50% of households[7].

This reliance on gas means that UK homes are more directly exposed to the price volatilities of global gas markets. During the energy crisis, this led to energy bills increasing to unsustainable levels. The UK government was forced to intervene with an unprecedented package of financial support. Even with this support, bills will be more than double the historic price cap average[8].

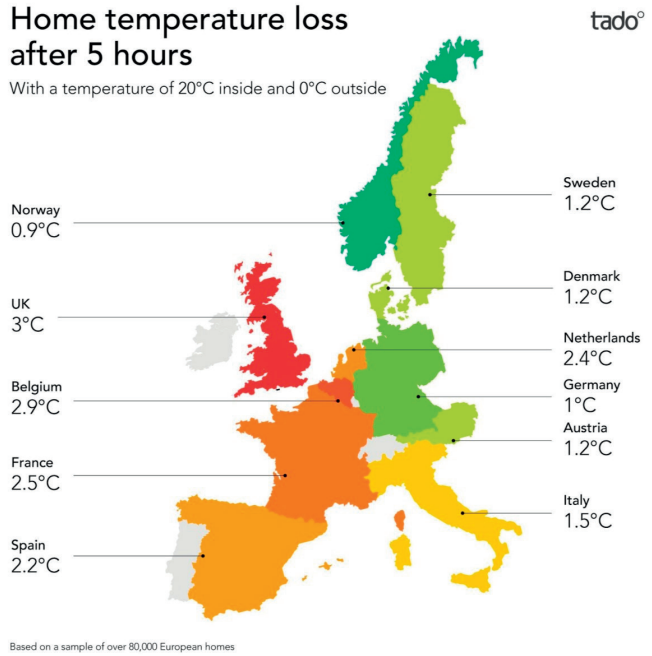


Fig.1 UK homes losing heat up to 3 times faster than European neighbours

The effects felt by consumers from their rising energy bills go beyond financial impact. Research shows that it's also negatively affecting their mental health: 1 in 2 people are experiencing anxiety about being able to pay their bills as a result of the cost of living crisis[9]. Of those who've seen their bills increase, 89% felt stressed or anxious and 66% felt depressed as a result[10].

Our research shows that, even during an energy crisis, UK citizens are still committed to helping the planet. But, at the same time, the UK's path to net zero is stagnating. While we've made good progress, we need to dramatically accelerate the green infrastructure the country needs.

Increased renewable energy sources – alongside energy storage, demand reduction, and more demand flexibility – must all be part of the mix, if the UK is to have affordable and secure energy supplies and deliver on its legally binding climate change commitments. But we also need to see the decarbonisation of heating in the UK – by insulating our homes and switching to electric heating solutions like heat pumps.

Consumers still rank climate change as a top priority for action. But they feel anxious and disempowered about their energy bills[11].

Overwhelmingly, consumers feel stressed and worried about the energy they're using – and that the energy market isn't working well for them.

67% of UK consumers say that they worry about their energy bills at least once a day. 35% say that they worry about their energy bills multiple times a day. 88% say that they worry more about their bills now than a year ago.

18% of UK consumers say that they currently feel in control of their energy bill. And 81% are interested or very interested in doing more to take control of their energy bill – for example, by finding ways to use energy more efficiently or insulate their home better.

23% of UK consumers think energy companies share their priorities, and 85% think the energy industry needs to change its approach.

Consumers still care about taking action on climate change, but most feel it's out of reach financially.

25% of UK consumers say that, despite the rising cost of living, they've cared more about climate change and the environment in the past year. While 51% say they've cared broadly the same amount, with only 24% saying they've cared less about the environment.

62% of UK consumers believe that making greener choices will cost money, and 25% believe it won't save them money. Similarly, 71% think it's difficult to be green and save money, and 36% go further to say it's impossible.

65% of UK consumers say that they can't afford to take more action on sustainability and climate change. Over 33% believe that green energy and improving energy efficiency at home is not for people like them. 5% believe that green energy is only for the wealthy, and 52% believe it's only for people wealthier than them. Similarly, 33% believe that energy efficiency is only for the wealthy, while 46% believe that it's only for people wealthier than them.

32% of UK consumers are confident in how to improve their homes' energy efficiency.

Consumers don't always trust the offer of green energy and they want more transparency.

52% of UK consumers think the industry is using money for sustainability badly, compared to just 19% who think industry is using it well.

81% of UK consumers do not believe the options available for greener energy are real, and 81% want more transparency from the industry on green energy claims.

The need to go further and faster is clear. We have a chance to deliver a greener, more affordable, and more secure energy system – one that can withstand future global crises, while keeping bills low for everyone. That's why, at OVO, we're not just selling energy. With a better energy system in mind, we're supporting our customers in making the low carbon choices we need to decarbonise effectively.

Greenwashing in the energy market.

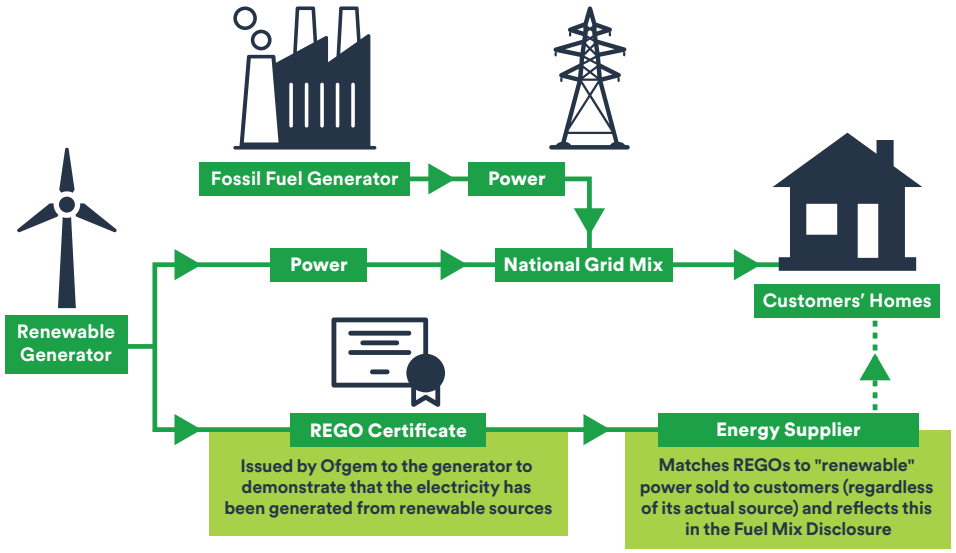
Right now, most UK consumers engage with net zero through their choice of energy tariff. However, electricity tariffs sold to consumers at '100% renewable' will not, in most instances, lead to any additional renewable energy, beyond what was always going to be generated, coming onstream. This has no direct impact on the path to net zero.

How the Renewable Energy Guarantees of Origin (REGO) scheme works

REGOs were originally introduced as an accountancy measure – so suppliers could track the proportion of energy they bought and sold to customers that came from renewable sources. But the energy delivered into people's homes is all from the same grid – powered by lots of different sources, including gas and sometimes even coal. The actual energy used under a renewable tariff is no greener than the energy used through a non-renewable tariff.

Power Purchase Agreements (or PPAs) are energy contracts established between an electricity generator and a customer (which can be an energy retailer, a corporate or an individual consumer). Under a PPA, renewable power and any associated REGOs are bundled and sold together, independent of the wholesale electricity market.

How the REGO scheme works.



There are widespread misconceptions about 100% renewable electricity tariffs.

- **Consumers of green tariffs overwhelmingly think their home is powered only by green energy.** Of consumers currently on 100% renewable electricity tariffs, 89% believe their own homes will be powered physically by renewable electricity.
- **Consumers of green tariffs overwhelmingly think their use of these tariffs directly drives investment in renewable energy.** 81% of consumers on 100% renewable electricity tariffs believe that their use of this tariff supports more renewable electricity to enter the UK energy grid.
- **OVO's consumer testing suggests that once consumers fully understand how green tariffs work, they significantly prefer other options to take control of their energy and contribute to net zero over renewable electricity tariffs.**

The price of REGOs has gone up considerably in recent years. This is driven by increasing demand, both from companies looking to reduce their carbon footprints and for "100% renewable electricity" tariffs from consumers.

The UK is aiming for a decarbonised power system by 2035. One of the ways the government is trying to meet this goal is by targeting 50GW of offshore wind capacity by 2030. And major progress is being made. During 2022, the UK achieved the milestone of more than 25GWs of installed onshore and offshore wind capacity (up from 15GW in 2017)[12].

The UK's Contract for Difference (CfD) subsidy scheme is the driving force behind this – paid for by electricity consumers through their bills. The government's Review of Electricity Market Arrangements (REMA) highlights the likely long-term role for a scheme like the CfD, or an equivalent, to secure investment in renewable power capacity for the foreseeable future.

Summary of Cornwall Insight research into the REGO market

REGO certificates form a small part of renewable generators' total revenue. Historically, prices were so low that many generators did not charge buyers for their REGOs as part of PPAs. Even with the recent REGO price increase, investors generally still only consider revenue streams with more certainty and less volatility than REGOs in their investment cases.

Government subsidy mechanisms have underpinned over 95% of renewable generation in the UK to date. Most existing renewable generation has been subsidised by either the Renewables Obligation scheme (RO), the Feed-In Tariff (FiT), and now the Contracts for Difference (CfD) scheme.

The CfD scheme is expected to subsidise the majority of future renewable generation. Customers are already helping to support these government schemes through social and environmental obligation costs that are reflected in their energy bills[13].

Despite an estimated industry cost of £1.4 billion[14], most REGO trading has had little impact on the development of renewable electricity generation. So consumers are paying for something that isn't really doing anything to help us progress to net zero.

You can see the full paper here.

Do PPAs drive additional renewable generation?

Establishing a PPA with a new, subsidy free generator is one way of driving additional renewable energy generation to the UK grid. The PPA offtaker, which could be a corporate consumer of an energy supplier, will guarantee to purchase the power at an agreed price for an agreed length of time, and receive the REGOs attached to that renewable power through a PPA.

This gives the developer or investor of the renewable project a level of confidence to build it. The customer can claim the REGOs attached to this specific project and state that they are associated with additional renewable electricity.

Given the historic role of subsidies in the UK, the majority of PPA deals have been with subsidised assets.

From a customer perspective, purchasing power via a PPA provides proof that more of their spend on energy is going to the renewable energy generators themselves. While useful to consumers, these agreements do not incentivise additional renewable generation if they are with existing subsidised generation assets.

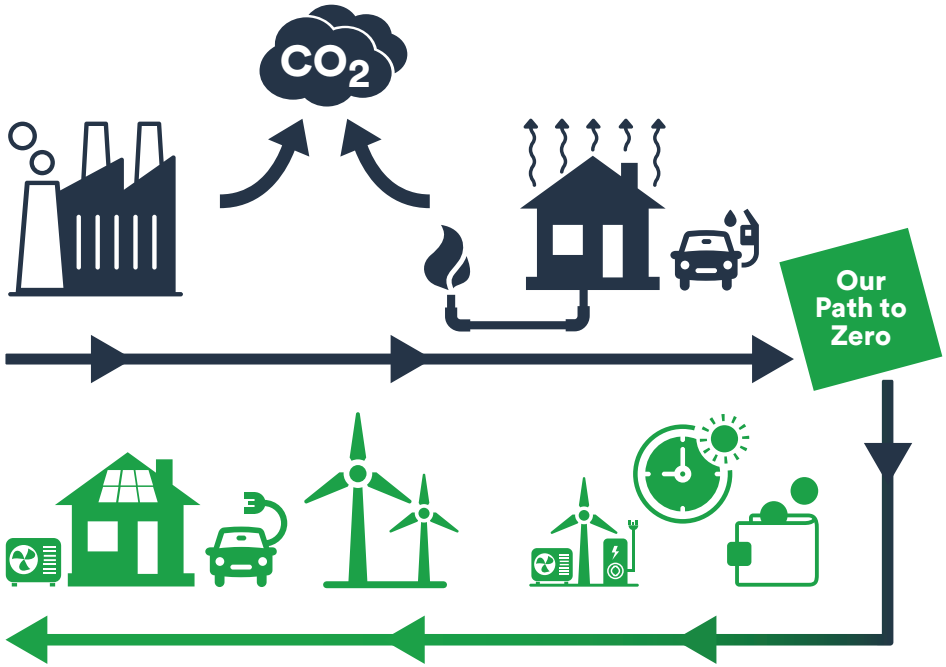
What does this mean for getting to net zero?

For the net zero grid of the future to be effective, consumer energy use needs to be efficient and complement the intermittency of renewable generation. This will need innovation, research, new products and services, and changes in consumer behaviour.

The global transition to net zero will need significant investment. The Climate Change Committee (CCC) has estimated that upgrading the UK's homes (including installing energy efficiency measures and low carbon heating) will alone cost around £250bn[15]. And research from Friends of the Earth estimates that installing insulation in UK homes to make them cheap to heat and fit for the future by 2030 would cost £8 billion a year over the next decade[16].

Every pound of investment needs to return true decarbonisation. The REGO market is currently valued at close to £1.4 billion a year[17] and is delivering "no or limited environmental benefits"[18]. We believe there's an opportunity to repurpose this spend on decarbonisation initiatives that truly support the energy transition.

Path to Zero.



OVO's Path to Zero is a new standard to support all energy customers.

As an industry, we need to support the decarbonisation of the UK grid and transition away from gas-powered heating systems. Then we can power our customers' homes with the fossil-free energy system of the future. This will lower costs for our customers and help with security of supply.

To get there, we want to redefine what it means to be a green supplier.

From 20th May 2023, OVO will no longer provide "100% renewable electricity" tariffs backed by REGO certificates as part of our Core Energy Tariffs. Instead, we've evolved our energy offer to help customers on the Path to Zero. This means helping them understand the steps they can take to cut their bills and cut carbon – whether they're on the first step or already know lots about their energy use.

OVO's Path to Zero allows customers to find tangible steps to lower costs and carbon. It helps them make better choices that suit their home and circumstances.

Path to Zero.

We're announcing the launch of our new proposition, Path to Zero, to help our customers achieve the following:

Save: The UK has the least energy efficient homes in Europe. By upgrading the physical fabric of their home as well as nudging more efficient behaviours, we're helping our customers get the most out of each kWh of power flowing into their homes. So they're preventing wasted energy and saving money at the same time.

Shift: The carbon intensity of the UK grid changes over the course of the day depending on energy demand and renewable generation output. Your true carbon impact depends on the carbon intensity of the UK grid at the time you're using it. This means that doing a load of washing can have a different carbon impact depending on the time of day, or even the time of year, you're doing it. We want to reward customers for shifting their consumption away from these times of peak carbon intensity.

Transition: In the UK, fossil fuels are used as the predominant fuel for our transport, heating, and power systems. To reach net zero globally, we need to rely less on fossil fuels. For the UK grid, this means incentivising the build out of truly additional renewable generation assets and ways to store this energy for future use. For our customers and their homes, this means replacing gas boilers with electric heating alternatives like heat pumps or other electric solutions, and switching a petrol/diesel car for an EV.

To save, shift, and transition, OVO has developed a toolkit of smart technology, services, and offers to incentivise our customers to make better choices for them – to reduce their energy bills and decarbonise their homes. So every household can take the next step on the Path to Zero.

The energy industry needs clear principles for green claims to make sure consumers aren't misled.

The Path to Zero alone can't solve how the whole energy market delivers energy affordability and decarbonisation for consumers. We need to redesign the system so that people can maximise their contribution as we accelerate towards net zero.

This will require the government and industry to work together on a major programme of reforms across the whole sector, including to both the REGO system and to green tariffs.

We believe that these 3 specific principles should underpin these REGO and green tariff market reforms.

1. **Tariffs that make environmental claims need to be transparent and comparable, so consumers can make informed choices.**
2. **Renewable tariffs must directly support additional renewable power generation and carbon savings.**
3. **Tariffs that make an environmental claim must provide a genuine environmental benefit.**

Principle	Description
Tariffs that make environmental claims need to be transparent and directly comparable, so consumers can make informed choices.	Broadening the definition of "green" will make the marketplace more complex and potentially harder for consumers to engage with. So we need rules in place, which help consumers navigate this market and make decisions that are better for themselves and the planet.
Renewable tariffs must directly support additional renewable power generation and carbon reductions.	If consumers want to actively support renewable generation, their decisions should help the building of assets that otherwise wouldn't have come onto the system.
Tariffs that make an environmental claim must provide a genuine environmental benefit, such as rewarding consumers with cheaper energy in periods of low-carbon energy, providing energy efficiency measures, or supporting fuel switching.	Energy suppliers will need to support consumers to play their part in the move to net zero. They'll need to enable "green" behaviours like the take up of decarbonisation products such as heat pumps or EVs, incentives for using energy more flexibly, and ways to support more new-build renewable generation.

Policy recommendations

1. Reform the REGO System

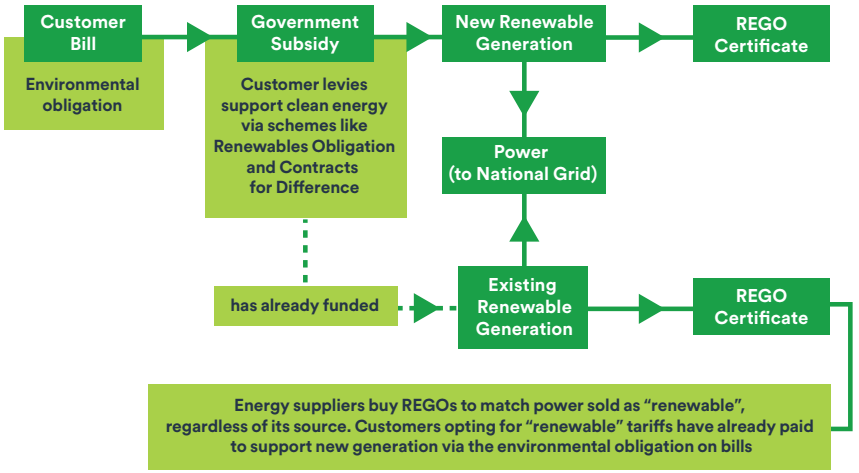
Aim: Incentivise more renewable energy generation to be built and added to the grid. Transform the REGO market so "renewable electricity" tariffs are linked to investment in additional renewable generation assets.

Vision:

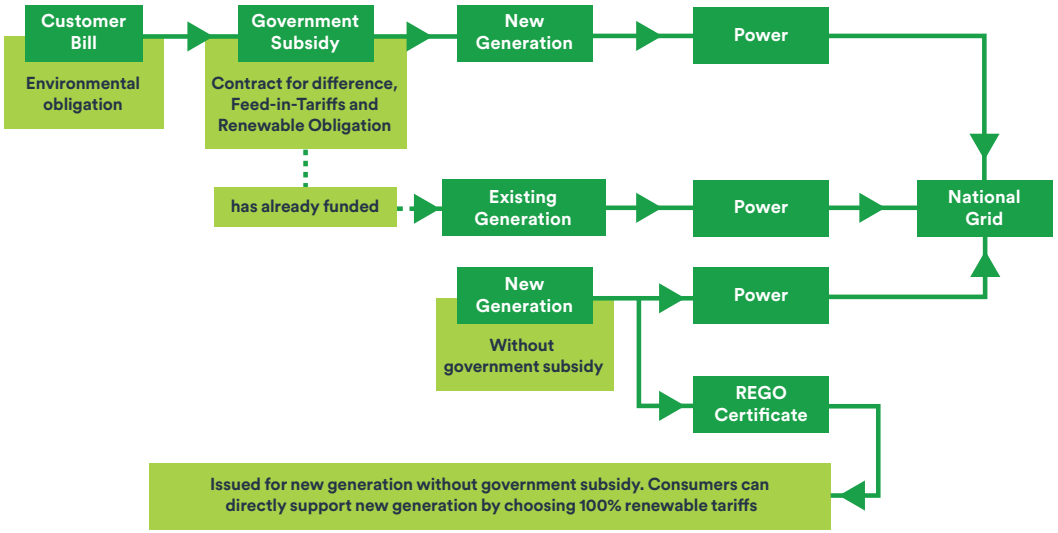
- REGOs in their current form should be gradually phased out of the UK system. This would allow capital to be spent on decarbonisation initiatives with real climate impact instead.
- Players who are genuinely investing in additional renewable electricity generation should be able to benefit from their efforts. We propose that REGOs are only issued to new "subsidy free" generation assets, alongside a gradual phasing out of REGOs for legacy renewable assets. This means that suppliers will still be able to brand their tariffs as "100% renewable electricity". When a consumer chooses one of these tariffs, they can be confident that their choice directly supports the build out of additional renewable generation.
- Fuel Mix Disclosure (FMD) continues to exist, but as legacy REGOs are phased out only "subsidy free" REGOs would be available for "greening" FMDs. For suppliers investing in subsidy free generation, their FMDs would reflect the higher proportion of renewable energy they supplied their customers. Otherwise suppliers FMDs mixes would reflect the grid average profile. That would include renewable energy from legacy renewable assets. Over time, as the UK decarbonises, all suppliers FMDs will get progressively greener.

Reform the REGO System.

Current System:



Reformed System:



Detail:

Only new, non-subsidised renewable power projects should receive REGO certificates that can be traded for revenue.

By only enabling new, non-CfD renewable generation to sell REGOs, it means that **for suppliers to offer "renewable electricity" tariffs they'd have to enter PPAs[19] with renewable generators that wouldn't otherwise be coming onto the grid**. We can refer to these REGOs as "subsidy free" due to the absence of other support schemes contributing to the projects' revenue stream.

This would also significantly reduce the number of REGOs on the market. The reduction in supply, combined with the key role subsidy free REGOs play in Fuel Mix Disclosure and renewable tariff marketing, would result in them attracting a significant premium. That would mean providing **a genuine and material incentive for additional renewable generation**.

Suppliers without the ability to purchase these premium REGOs (for instance, due to cost) would reflect the grid's average carbon intensity in their FMDs. They could then differentiate their services via other "green" offerings (see section 5.b. below).

"Renewable electricity" tariffs would become a premium product, better reflecting the cost of providing additional backing to renewable power projects. Other consumers would benefit from the fact that trading of legacy REGO certificates would stop – taking significant cost out of the retail market.

A reduction in REGOs available for purchase could also encourage more corporations to sign subsidy free Corporate PPAs (CPPAs) to achieve renewable energy targets in their Net Zero and ESG strategies.

If implemented like this, awarding REGO certificates to new renewable energy projects could create a reliable new revenue stream that would support investment cases. This could open up an alternate route to project financing, and give developers a different option to the CfD scheme. And it could be useful for projects that are unsuccessful in a CfD auction round[20].

An alternative route to financing for projects that don't meet the parameters of the CfD auction means that projects could progress to development – without waiting for subsequent auction rounds. This would have the benefit of supporting additional renewable energy capacity coming online sooner than would otherwise have been the case.

This reform would result in the tariffs marketed as "renewable electricity" actually supporting new generation. There would be a traceable link between the tariffs and new projects supported by them. As a result, there would be significantly more transparency in the market, which will help build trust with consumers.

Driving additional renewable generation will also help to reduce the carbon intensity of the UK grid as a whole. This means that corporates adopting location-based accounting will also benefit – as their electricity consumption would reflect the decarbonisation of the grid.

How could this change be implemented?

We believe this reform could be implemented relatively easily – perhaps in less than 2 years – following a period of consultation. But we'd encourage all suppliers to voluntarily remove "renewable" marketing claims from REGO-backed tariffs that do not support incremental subsidy free renewables in the meantime, to improve transparency in the market as soon as possible.

Existing power generators would stop being awarded REGO certificates and, as explained above, this would have limited financial impact and reduce some administrative requirements, by removing the need to engage with a secondary market for REGOs.

The major change would be for suppliers – who would have to update their tariffs and, in all likelihood, end "renewable electricity" tariff claims. Under these proposals, suppliers could market a proportion of their sold electricity as renewable if covered by new subsidy free PPAs (which support construction of new renewable power projects). Any PPAs established with existing generation assets wouldn't be covered, so the FMD for all suppliers would trend towards the industry average (until they directly support new projects).

For consumers this would mean much greater transparency on the true impact of their tariff on decarbonisation. When customers enter into "renewable electricity" tariffs, they'd have confidence that their choice, and the premium they were paying, was truly supporting the transition to net zero – by building out additional renewable generation.

A potential target date for the start of this new regime would be April 2025. This would give time for suppliers to update their tariffs, and also align with the timing of the 7th CfD Auction Round, where parameters have yet to be set. Giving renewable developers and investors greater certainty would take both changes to the REGO scheme and a coordinated approach from the government to setting the rules and budgets for the CfD auction. This might also include some changes resulting from the ongoing Review of Electricity Market Arrangements.

Government will need to consult with industry on proposals for implementation. Critically, there will need to be an examination of the period of time that new renewable projects are eligible for REGO certificates under the new regime. Government will need to work with project developers on the terms that could realistically support investment.

At a minimum, we'd suggest a three-year period when new projects are eligible for a REGO certificate to be issued by Ofgem. Beyond this point, there could be a de-rating process, where certificates are awarded but at decreasing levels (eg. 0.8 certificates in year five, and 0.6 in year seven). This would avoid a cliff-edge for generators, while ensuring that the value of REGO certificates is highest for new projects.

How this works in Germany[21]

We've seen other geographies starting to do this already.

In Germany, Guarantee of Origin (GoOs) certificates (which are the EU equivalent of REGOs) are only issued to renewable generators **that have not received** any other kind of government subsidy. Germany's Renewable Energy Law (EEG) is its main subsidy scheme for renewable energy and supports the majority of its wind and solar output.

This is because the German government considers the subsidies already provided via the EEG as sufficient financial support for green electricity. Therefore, issuing additional GoOs on top of this would represent a double counting of energy that would have already been produced (eg. GoOs certificates issued to subsidised generation acts as a double subsidy).[22]

Energy suppliers providing "green" tariffs to consumers are required to separately list on energy bills the proportion of electricity financed from the EEG scheme versus electricity that is subsequently backed with GoOs (which are either imported from other EU regions or generated from non-subsidised renewable assets in Germany).[23] This could include a tariff that is wholly backed with GoOs but this is clearly disclosed to customers.

2. Reform the Green Tariff Market

Aim: Reform the green tariff system to identify tariffs that provide genuine additional benefits to the environment. They need to be transparent and clear for consumers – evolving the definition of green from "renewable tariff" to reflect the full spectrum of initiatives and behaviours needed to meet net zero.

Vision:

- Establish a kitemark scheme that provides a meaningful way for consumers to differentiate between standard tariffs and those that support additional decarbonisation.
- Design of the kitemark should be broad enough to encompass all of the ways that consumers can support the transition to net zero. That includes improving energy efficiency, shifting consumption out of times of peak carbon intensity, building out additional renewable generation assets, and switching away from fossil fuels. This will allow consumers to compare across these tariff types eg. comparing a Time-of-Use tariff with a meaningful renewable power tariff.
- Include "subsidy free" REGOs as a condition of a kitemarked Renewable Power tariff.
- Encourage tighter rules for marketing renewable or green tariffs, so that they can only be marketed in this way if they are in receipt of a kitemark. This is to ensure consumers are not mis-sold.

Detail:

Why do we need a kitemark?

The kitemark will help solve two problems. First, "green" tariffs are currently nearly solely focused on renewable claims that, as set out above, can be misleading. And the focus on "100% renewable electricity" tariffs is arguably not where consumers can make the greatest contribution to net zero.

A kitemark scheme would categorise products that support the transition to net zero in its entirety as "green" and raise their profile to help promote adoption to the levels required for the energy transition. Based on the level of demand for renewable tariffs, we'd expect a significant cohort of consumers to prefer tariffs that are awarded the kitemark. This will create the competitive dynamic that incentivises suppliers to develop products that can gain the kitemark – creating a vibrant marketplace for demand side propositions.

A kitemark also solves the issue of transparency and comparability. Currently consumers can't meaningfully compare "green" products – or feel confident their tariff is making a valuable contribution to net zero. A simple, robust, and independent kitemark system will help consumers to engage in the market with trust and confidence. They'll know that when they choose a "green tariff" it's actively supporting net zero.

How would a kitemark work?

The scheme could take various forms, from a single kitemark for all products that pass a certain threshold (possibly measured in %/tonnes of CO_2 abated by the product) to a star rating that has set thresholds.

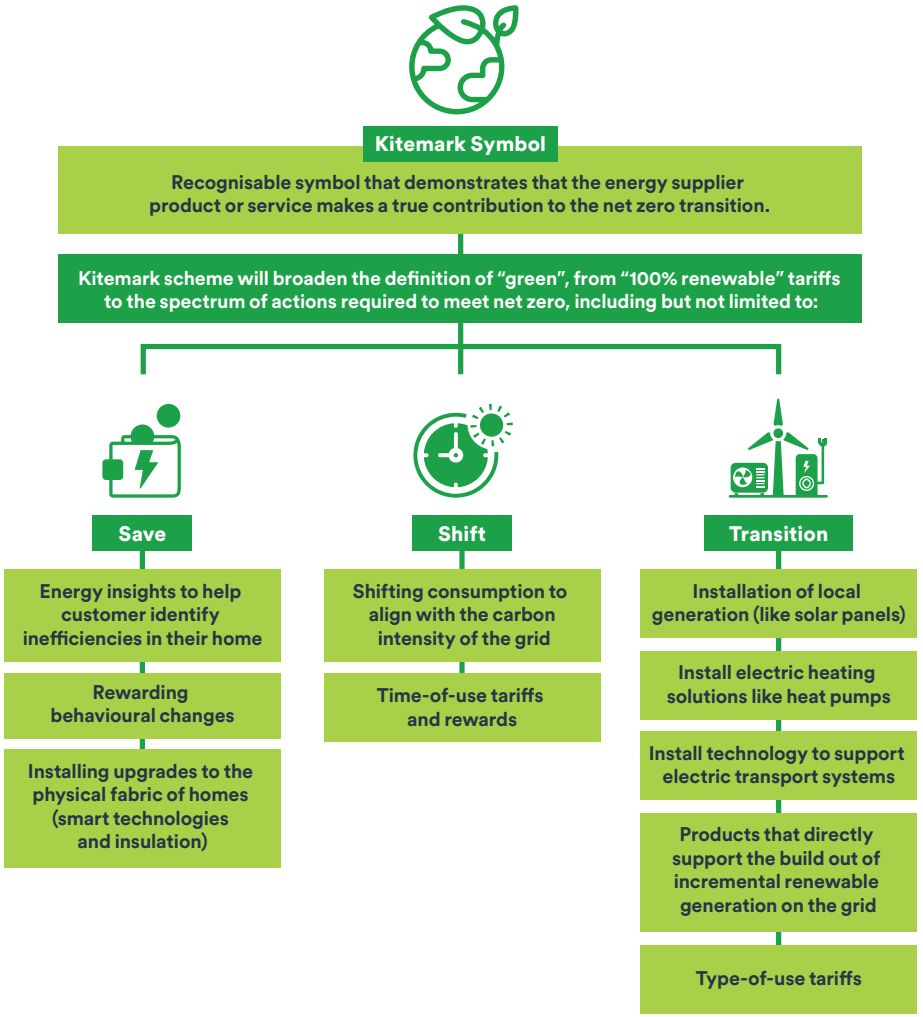
The optimal design would need to be informed by consumer research and collaboration between government and industry. And the Department for Energy Security and Net Zero would need to consult on the exact design and eligibility rules of the kitemark.

Expected features of the kitemark:

- Administered and run by an independent body that assesses each product on the market (or each product suppliers decide to put forward).
- Underpinned by a code of practice that sets out the exact technical rules, regulated by Ofgem or a different independent body.
- Technical rules based on clearly defined and understandable standards that can be proven and do not discriminate against different products (for instance tariffs that encourage consumers to reduce and shift load).
- Tariffs marketed as renewable would need to be based on additional non-subsidised new renewables, in order to be eligible for the kitemark (certified via reformed REGOs).

In addition, Ofgem's tariff marketing regulations would need to be tightened to stipulate that for any tariff to be marketed as "renewable" or "green", or for the tariff to make any other environmental claim, it would need to be awarded the kitemark.

Example of what a kitemark scheme may look like and cover.



Conclusion.

The energy crisis has shown us how much we rely on fossil fuels - and the impact this has. Consumers have seen significant price rises, unpredictable bills, and increasing levels of fuel poverty. And to make matters worse, UK homes are inefficient. So a significant amount of this expensive energy is wasted.

We know there will be many challenges to tackle and reduce our reliance on fossil fuels, to reach net zero. Through this policy paper, we're developing a more effective way of driving additional renewable investment. We'll continue to look for ways to help our customers use a higher portion of their energy at times when green energy is being produced. And we'll support the collective move away from gas boilers and petrol cars.

Today, we're putting green energy back on track. We're setting out our renewed commitment to cut carbon, help customers save money, and accelerate the energy transition. This is why OVO is redefining what it means to be a green energy supplier. Our move away from REGOs is just the beginning. It means evolving our green offer for customers to provide them with much more credible green choices, while helping them to save money. And it means supporting the build out of truly additional renewable generation, creating a more secure energy supply for the whole country.

Join us on the Path to Zero.

Footnotes

No.	Description
1	www.bre.co.uk/filelibrary/Briefing%20papers/92993_BRE_Poor-Housing_in_-Europe.pdf
2	In the UK, around 200 million renewable energy certificates were surrendered in the 2021-22 FMD year. At average spot market prices for the year, as seen in Cornwall Insight's quarterly Green Certificates Survey, these certificates would be worth £328m. Cornwall Insight forecast that certificate demand will rise to 223 TWh in 2022-2023 FMD. At the spot prices seen in the most recent Green Certificates Survey (which have risen to around £6.34 per REGO, the cost of these certificates would be over £1.4 billion. See more information here.
3	www.ofgem.gov.uk/information-consumers/energy-advice-households/costs-your-energy-bill
4	World Energy Outlook 2022
5	www.bre.co.uk/filelibrary/Briefing%20papers/92993_BRE_Poor-Housing_in_-Europe.pdf
6	'UK homes losing heat up to three times faster than European neighbours' www.tado.com/gb-en/press/uk-homes-losing-heat-up-to-three-times-faster-than-european-neighbours
7	Germany: Household heating sources www.statista.com/statistics/1189752/household-heating-sources-germany/#:~:text=Natural%20gas%20and%20oil%20are,homes%20were%20heated%20with%20oil.
8	From when the price cap was introduced on 1 Jan 2019 until August 2021 the price cap level averaged £1154,6 per year for the average consumer. The most recent price cap level (for Jan-Mar 2023) is £4279. However consumers are currently protected by the Energy Price Guarantee and other support measures which have capped bills at £2100 for the average consumer. Due to the nature of support changing this will rise in April 2023 to a maximum of £2500.
9	www.bps.org.uk/news/one-two-people-experiencing-more-anxiety-about-being-able-pay-their-bills-last-year-warns-bps
10	www.moneyandmentalhealth.org/enery-crisis-mental-health-problems/#:~:text=But%2C%20as%20with%20a%20lot,felt%20depressed%20as%20a%20result
11	Strand Partners' specialist research team conducted an online survey of 4,026 nationally representative members of the UK public (by age, gender and NUT1 region) online between 23.02.22 and 27.02.22. All data was then weighted against the latest ONS census. Strand Partners' online polling studies are conducted under their rules of disclosure. All data gathered is of a publishable quality and is produced within Market Research Society guidelines. For full data tables and more detail of the methodology, please e-mail: polling@strandpartners.com
12	www.renewableuk.com/news/613936/Wind-power-reaches-new-milestone-of-25-gigawatts-powering-two-thirds-of-UK-homes-.htm

No.	Description
13	www.ofgem.gov.uk/information-consumers/energy-advice-households/costs-your-energy-bill
14	In the UK, around 200 million renewable energy certificates were surrendered in the 2021-22 FMD year. At average spot market prices for the year, as seen in Cornwall Insight's quarterly Green Certificates Survey, these certificates would be worth £328m. Cornwall Insight forecast that certificate demand will rise to 223 TWh in 2022-2023 FMD. At the spot prices seen in the most recent Green Certificates Survey (which have risen to around £6.34 per REGO, the cost of these certificates would be over £1.4 billion. See more information here.
15	www.instituteforgovernment.org.uk/article/explainer/paying-net-zero#:~:text=The%20CCC%20has%20estimated%20that,cost%20of%20nearly%20%C2%A310%2C000
16	https://policy.friendsoftheearth.uk/insight/securing-warm-homes-dont-cost-earth
17	In the UK, around 200 million renewable energy certificates were surrendered in the 2021-22 FMD year. At average spot market prices for the year, as seen in Cornwall Insight's quarterly Green Certificates Survey, these certificates would be worth £328m. Cornwall Insight forecast that certificate demand will rise to 223 TWh in 2022-2023 FMD. At the spot prices seen in the most recent Green Certificates Survey (which have risen to around £6.34 per REGO, the cost of these certificates would be over £1.4 billion. See more information here.
18	Ref Cornwall Insight report
19	Technically,rather than necessarily enter a PPA, a supplier would still be able to purchase the REGO on a secondary market but at a much higher price reflecting their scarcity. However given that for a supplier's FMD to reflect the renewable energy from any PPA they had entered into, we do not believe there would be a strong incentive for them to sell the REGO on the secondary market
20	As explained in Chapter 4, the CfD scheme has been one of the main programmes through which the Government has supported new renewable generation. The scheme operates through auction rounds (which were previously biennial and is now annual). During the auction round developers bid in the price ("strike price" expressed in £/MWH) they are willing to accept for the energy from their project, up to a maximum price that is set by the Government for each renewable technology (wind, solar etc). If successful, and once the project is built, the developer is guaranteed to receive that strike price regardless of the current wholesale price. Therefore when the wholesale energy price is below the agreed strike price, the developer is topped up and when the wholesale price is above the agreed strike price, the developer has to repay the surplus. This guarantees a rate of return for the developer and investor.
21	www.energypartnership.cl/newsroom/green-certification/
22	www.energypartnership.cl/newsroom/green-certification/
23	www.next-kraftwerke.de/wissen/oekostrom