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Dear Claire –

Re: BEIS consultation on Streamlined Energy and Carbon Reporting, and BEIS consultation on Carbon Emissions in the Wider Public and Higher Education Sectors

I am writing to set out some concerns about how businesses (and public sector organisations) report on their use of renewable electricity.

As you will know, a significant number of major energy-consuming organisations in the UK enter into contracts for renewable electricity. These contracts are notional because one cannot know the way in which the electricity consumed from the grid is generated. It seems likely that these contracts do not have any benefit to the decarbonisation of the power sector, except to the organisation concerned which may report vastly-reduced greenhouse gas emissions (GHG) as a result. Furthermore, this practice looks largely to be an accounting technique that switches GHG emissions from organisations “buying” renewable electricity to those that are not. These latter organisations may not be reporting their emissions at all, rendering their increased GHG emissions invisible while the net effect on emissions is nil. Evidence suggests that the reason why there does not appear to be any benefit is that organisations are usually paying small premiums for these renewable electricity contracts that do not incentivise extra renewable generation capacity; the driver for that is government support.

While I welcome both the intention of organisations to support renewable electricity generation and the support from government, it would be better if the organisations’ intentions resulted in extra capacity. I have been told that many will be unaware of market conditions; the majority are likely to assume that increased demand will result in increased supply. Yet what they seem to be doing is appropriating the environmental credentials of a publicly-funded good for a small fee. The German government (and others in Europe) have taken steps to prevent this and to ensure that electricity consumers that have contributed financially towards the Energiewende (energy transition) can see the results of their funding in the emissions data on their electricity bills. Another aspect is that the much-reduced figures reported by some businesses may give the impression to the public, policy-makers, investors and the businesses themselves that that they are achieving greater emission reductions than is actually the case.

The Renewable Electricity Directive 2009/28/EC is currently in the process of being amended and one of the debates is what should happen to the emissions benefits of government-supported electricity. I have given more details on this in a technical briefing overleaf. The revision of the directive – along with the Streamlined Energy and Carbon Reporting (SECR) consultation – provide an opportunity to address this issue. I am deeply interested in knowing how the reporting process can be used to incentivise actual reductions in emissions to atmosphere. I understand that the dominant global methodology for organisational carbon accounting – the GHG Protocol’s Corporate Standard - was amended in 2015 and allows the practice described above. I am not proposing a new methodology. However, I do think it could be built upon to take account of market conditions in the EU. For example, the
following simple step may serve to raise awareness of these market conditions and focus attention on how to incentivise extra capacity: a requirement for organisations to report whether their renewable electricity contracts benefited from government support, the country of origin of the electricity and the steps they have taken via the contract to stimulate additional capacity.

A further measure would be to offer organisations best practice guidance on specifying renewable electricity contracts. For example, Commerzbank in Germany will only contract for electricity from renewable generation capacity that is less than seven years old, in order to incentivise new capacity. I do not know if this is the best criterion to apply, but it is illustrative. It may be more effective to promote Power Purchase Agreements. These are described in the attached document, where I relay some of the technical data that I have been given, and further explain why this issue should be addressed.

I look forward to hearing from you on this issue.

Yours sincerely,

Caroline

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