



Unlocking Corporate Investment in UK Renewables

Recommendations for market reform

Policy summary
September 2024

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The new Government has set stretch targets to decarbonise the electricity grid by 2030. This ambitious transition has the potential to create hundreds of thousands of new jobs, increase energy security and bring down costs. It will require significant levels of public and private investment to deliver. Bold reforms will also be needed to enable the benefits of this investment.

1. RE100 and the role of businesses in supporting zero carbon grids

In June 2024, Climate Group and BT Group hosted a roundtable with representatives from some of the UK's largest purchasers of renewable electricity to discuss two key issues:

- Recent developments in UK renewable electricity markets, *and*
- What is needed to leverage corporate investments in renewable electricity

These issues are critical as they help to deliver on the ambition to decarbonise the UK electricity grid by 2030.

RE100 is the global corporate renewable energy initiative bringing together over 400 of the world's largest businesses committed to using 100% renewable electricity. These companies are taking practical steps to support decarbonisation of the UK grid, including negotiating Power Purchase Agreements (PPAs) to directly support the installation of renewable generation capacity.

Together, the 212 RE100 members with operations in the UK represent around 5% of UK electricity demand (16TWh/yr). The companies supporting this policy summary play important roles in the UK economy and are committed to decarbonisation and delivering a net zero economy. However, significant challenges in the UK market require urgent attention if we are to unlock the full potential of corporate investment in renewable electricity.

2. REGO market volatility and concern over lack of 'additionality'¹

During our roundtable, concerns were raised about the Renewable Energy Guarantees of Origin (REGO) scheme. REGOs were established to provide transparency to consumers about the proportion of electricity that suppliers source from renewable electricity, by providing certificates which demonstrate electricity has been generated from renewable sources. **Our collective view is that the REGO scheme needs reform to more effectively support the mission of grid decarbonisation.**

The REGO market has become increasingly volatile since Ofgem (and some other reporting bodies) stopped recognising EU energy attribute certificates in April 2023. For significant

¹ Additionality in renewable energy is a term that refers to the creation of new renewable energy generation that would not have otherwise occurred

purchasers of REGO certificates such as RE100 members, this volatility is a major source of concern – and has driven significant increases in the prices of REGOs.

The price of REGO certificates has risen significantly in the past two years, with prices fluctuating between £0.2/MWh and £25/MWh over this period. At the current time, REGO costs per MWh are close to £12.50/MWh (for CP22 REGOs) and £8.20/MWh (for CP23 REGOs).

These increases in price have driven significant unbudgeted costs while also raising concerns as to whether the model is an effective basis for supporting the rollout of additional renewable capacity, particularly given the high variability in pricing failing to provide certainty to support the long-term investments required in renewables and little evidence of how these costs are supporting additionality.

The UK already has higher electricity costs than many of our neighbours and competitors and the added impact that non-commodity costs are having on energy prices is a major challenge for the UK's competitiveness. We only have a few years to make the transition to a zero carbon electricity grid – there is no time to lose.

3. Recommendations for reform

To address the challenges outlined in this paper, we would urge the Government to look at reforms to the REGO market to ensure greater transparency and additionality. We call on policymakers to:

- Work with market participants to ensure greater transparency around the pricing and trading of REGOs
- Move policy towards 24/7 matching to more accurately reflect production and consumption of renewable energy
- Establish clearer links between spending on REGOs and investment in new renewable electricity generation capacity

3.1 Greater transparency in REGO pricing can help create a level playing field and unlock further renewable generation capacity

The increasing, and in some cases, exponential costs associated with REGOs has been compounded by the limited transparency and predictability of pricing. The market remains opaque, which means that firms seeking to participate in the scheme are unable to truly assess “fair market value”. There is no independent and authoritative oversight with respect to REGOs pricing, with a handful of brokers effectively dictating prices bilaterally with purchasers.

In the short to medium term, improved visibility of bids, offers and volumes through broker platforms and potentially through Ofgem, would allow market participants to assess fairer market value and provide greater confidence in market dynamics.

3.2 Reforms to the REGO market should focus on more accurately matching production and consumption of renewable electricity

A shift towards 24/7 REGOs whereby the production and consumption of renewable electricity is better matched locally and in real-time would facilitate an improved understanding of energy demand, solutions to meet that demand and provide a stronger basis for renewable claims to be made.

REGO certificates do not entail physical and exclusive delivery of electricity from a renewable energy generator to an organisation's facilities. Currently, businesses can claim to be using 100% renewable electricity through the purchase of REGO certificates, despite the underlying generation (purchased through their supplier) often being a mixture of renewable and non-renewable at the point of consumption.

This means that REGO certificates have no bearing on the emissions physically attributable to an organisation's electricity consumption. The use of an indirect (Scope 2) emission factor based on a REGO claim could, therefore, be seen as flawed and misleading as part of an organisation's carbon footprint. As corporate carbon disclosure requirements and green claim regulations become more stringent, it is vital that the regulatory system of this crucial element of corporate greenhouse gas emissions allows for accurate and comparable reporting. Where possible, a move towards bundling the actual energy consumption with REGOs would be beneficial.

We would also urge the Government to examine the potential benefits of a system which enables a more accurate 'time-stamped' view of renewable generation, certification and consumption. This would require the development of hourly products, extending over a full annual compliance period. There have been recent calls in Europe to move towards 'Granular Guarantees of Origin (GOs)', demonstrating the widespread appetite among businesses to move towards such a system.¹

Moving towards 24/7 REGOs would provide powerful pricing signals to the market – with high REGO prices at times when renewable generation is low. This could encourage businesses to adopt flexible, low carbon solutions (e.g. making use of batteries) to avoid higher REGO prices – and would act as a spur to greater investment in these critical technologies.

Given the complexity of providing this level of granularity, a digital solution would likely be needed to facilitate market trading. This especially important if the growth of renewables leads to higher levels of cross-border electricity trading between the UK and EU. In 2023, imports from Europe accounted for around 12% of the electricity supplied in the UK,² much of which is low carbon / renewable sourced. If the UK Government's targets for renewable energy generation are met over the next decade, there are likely significant upsides to coupling more accurate matching of production and consumption with cross-border GOs.

3.3 Through collaboration with market participants, investigate how to build greater additionality into corporate renewable power commitments

The REGO scheme was not intended to drive additional new investment in renewable power generation but was instead primarily designed to be a receipt mechanism to authenticate whether a unit of power comes from a renewable source. Considering the mission to

² Energy Trends: UK Electricity, Department for Energy Security and Net Zero

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decarbonise the grid, the time is right to reconsider whether the REGO scheme could be repurposed to drive greater investment in renewable generation. At present, many RE100 members are concerned that REGOs are a missed opportunity to support this mission, especially considering the high volatility of REGOs prices at present. The volatility of REGO pricing has also led to unpredictable revenue streams for renewable power generators, which adds to the risk which potential investors in renewable schemes will need to consider.

While additionality was not the original intent of the scheme, given the necessity of decarbonisation and the new targets set by the Government, a reformed regime could act as a spur to this transition, including by providing pricing signals to encourage businesses to consider flexible, low-carbon solutions when renewable generation is low and, if 24/7 REGOs were introduced, REGO prices were high.

There are several different models, which provide a basis for market reform that should be explored in more detail. We strongly believe that innovative solutions to attracting the necessary investment need to be considered.

Conclusion

We recognise that these are complex and potentially controversial issues. We believe that it is vital that the Government consults widely with industry as it begins to develop plans for reform. Addressing the issues around pricing and ensuring that the money which is being spent to boost the supply of renewables is actually performing this function should be an urgent focus of attention for government. Climate Group and RE100 represent a significant community of leading businesses, whose demand for renewable electricity can play a significant role in helping reach the Government's grid decarbonisation targets.

**BT Group; Climate Group; British Land; Coca-Cola Europacific Partners;
EnergyTag; Good Energy; Google; Pearson; Unilever; Unite Students;
Virgin Media O2; Vodafone UK**

