

Open consultation on the value case for a UK Green Taxonomy

6th February 2025

Sent by email to: taxonomyconsultation@hmtreasury.gov.uk

Dear Sir or Madam,

Thank you for the opportunity to respond to the above consultation. This is a non-confidential response on behalf of Centrica plc.

Centrica is a leading energy services and solutions provider founded on a 200-year heritage of serving people. We have a strong track record of ESG disclosure and are experienced in applying existing sustainability frameworks to our business. We bring the perspective of the discloser to this consultation, focusing on the practical challenges we have encountered to aid in the design and formation of a UK Green Taxonomy. Please consider our responses to the key questions from the consultation below.

Section 1:

1. To what extent is a UK Taxonomy valuable in supporting the goals of channelling capital and preventing greenwashing within the wider context of government policy, including sustainability disclosures, transition planning, transition finance, and market practices?

Centrica supports the development of a practical green classification tool that helps companies categorise their operations and investments. Our goal is to transparently communicate our green credentials to our investors, covering both our direct operations and the investments we make as a company. This includes showcasing how our capital allocation strategy aids our transition to sustainable practices. Any tool that enhances transparency and incentivises companies towards more sustainable practices, which Centrica is committed to, is highly beneficial, provided it doesn't impose too much of an administrative strain on companies. If a system is too prescriptive, difficult to use, and unable to convey nuance during the transition, its value diminishes.

Feedback from our investors suggests that a unified system is advantageous for ensuring the comparability of investments and reducing the burden on investors who need to scrutinise every green investment claim.

The key aspect is the implementation and enforcement of this tool across the board. This begins with establishing the primary purpose of the tool, considering the various use cases

outlined in the consultation document. Specifically, is the tool intended to (a) drive investment and bolster green funds in the finance sector, or (b) mandate cross-sector companies to disclose green finance data to drive the transition within business? This will influence our level of engagement with the tool. If the goal is (a), then the tool's design can afford to be purist and more limited in its list of activities. However, if the intention is for widespread adoption to support case (b), we would encourage the GTAG to consider the reporting burden on multidisciplinary companies like ours, which are not typically eligible for green funds, to facilitate widespread adoption. For example, we foresee challenges in effectively communicating our narrative using overly stringent tools limited in their inclusion criteria, given our involvement in various activities such as electricity storage and gas peaking plants for backup power which whilst critical for the energy transition are not renewable. The tool would need to accommodate a much wider range of activities and sectors (compared to existing taxonomies), acknowledging the complexity in decarbonising the system. And a practical approach that allows companies to opt in in a manner that suits their capabilities and goals.

2. What are the specific use cases for a UK Taxonomy that would contribute to the stated goals? This could include voluntary use cases or links to government policy and regulation.

Our primary focus would be utilising the tool as an aid for transitional planning and investment. A taxonomy can assist businesses in allocating funds towards credible sustainable activities, as well as transitioning their profit-making activities.

However, if the primary objective is to assist financial investors in assessing the “greenness” of an option, or for investments to qualify for specific green funds, then the GTAG should consider the use case and intended extent of its adoption. The majority of UK-listed companies may not qualify for these funds, and the reporting burden would be high for limited reward, thereby diminishing the incentive to engage.

While it should be accessible for green providers (e.g., pure solar PV manufacturers) to access these funds and benefit from them, other companies like ours, which operate both Solar PV and Gas assets, would not qualify yet still bear the reporting burden. The complexity and cost lie in this middle ground. The GTAG must establish upfront who this tool is intended for and how far spread it will be mandated and to what degree.

3. Is a UK Taxonomy a useful tool in supporting the allocation of transition finance alongside transition planning? If so, explain how, with reference to any specific design features which can facilitate this.

We believe that having a credible and widely adopted tool in the UK would be beneficial for companies like ours during the transition process. It would establish a common, high standard that could be used within internal investment controls.

If the application of this tool is to be mandated across all companies with the objective of company-level transitioning, we would advocate for the inclusion of a broader range of financial metrics, such as acquisition investment (alongside Capex). This would further incentivise companies to allocate their capital towards green initiatives, which sometimes

take the form of mergers or acquisitions. Additionally, we would seek an established method for evaluating mixed investments, for example if a portfolio included both solar and gas fired engines. This could involve applying a threshold of revenues from sustainable practices or another suitable method.

4. How could the success of a UK Taxonomy be evaluated? What measurable key performance indicators could show that a UK Taxonomy is achieving its goals?

To demonstrate progress from a transition perspective, it would be valuable to track the total revenues and investments in green activities according to the Taxonomy, with the aim of increasing this proportion over time. Additionally, to assess the usability of the tool, it would be pertinent to monitor the percentage of listed companies employing it. For other objectives, such as directing investment into green funds, the success and size of those funds should be tracked.

Section 2:

5. There are already several sustainable taxonomies in operation in other jurisdictions that UK-based companies may interact with. How do respondents currently use different taxonomies (both jurisdictional and internal/market-led) to inform decision-making?

Centrica is mandated by the EU Taxonomy due to our significant operations in those markets. Consequently, we are working towards implementing it across the group within the next year. However, we believe that a more flexible, principles-based approach would better support and reflect sustainability goals. We would not support a UK Taxonomy that is structurally similar to the EU's, as we believe it does not generate enough value compared to the effort required to comply. Instead of a copy-and-paste approach, we suggest developing a system that better suits the UK's unique context.

Nonetheless, we have found significant value in using the EU's taxonomy as a foundation for our own company framework to increasingly drive our capital allocation towards green activities. This framework is employed at an executive level and serves as one of our investment "guardrails" to aid in final investment decisions. It also underpins our green finance ambition, which aims to allocate over 50% of our investment into green activities between 2023 and 2028.

We have deviated from the EU Taxonomy in our financial ambitions and investment decisions because it is too burdensome to apply consistently across all options, sometimes requiring ten or more steps to prove an investment is aligned. The language used by the EU Taxonomy is also very complex, making it difficult for our internal stakeholders to utilise it effectively. Therefore, we have amended it to better suit our purposes.

Additionally, the taxonomy does not cover the entirety of the energy value chain, preventing its application to our whole business. Transitional activities are also limited, resulting in the benefits we bring to the system, not being appropriately reflected in the disclosure. The UK

version should consider how to facilitate transition at a national scale, rather than solely at a company level, to achieve system-wide decarbonisation. One of the key benefits of having a classification independent of Europe or another jurisdiction is that it can be tailored specifically to the UK's energy landscape, targeting the next steps we need to take as a nation to decarbonise.

Therefore, we find the EU taxonomy overly prescriptive and unsuitable for conveying our narrative in its current form. We hope that any UK Green Taxonomy remains practical and does not become a costly compliance burden, misaligned with the UK's transition realities.

6. In which areas of the design of a UK Taxonomy would interoperability with these existing taxonomies be most helpful? These could include format, structure and naming, or thresholds and metrics.

Clarity should be an underlying principle of the system. While we cannot avoid a system designed to classify activities as an inclusion list, it needs to be (1) clear, (2) sufficient in scope and (3) regularly reviewed. Labels such as “eligible” and “aligned” cause confusion among our stakeholders. Instead, terms like “potential” and “confirmed” could be used.

A mapping guide across eligible activities in other classification systems and the UK Green Taxonomy should be made available as a helpful tool to promote efficiency. Where differences are consciously made, they should be clearly highlighted.

Section 3:

7. What is the preferred scope of a UK Taxonomy in terms of sectors?

It is essential to prioritise material sectors to the energy transition and thereby include the entire energy value chain. The EU taxonomy has a heavy bias towards upstream activities and does not have an expanded scope. Without a broad scope, the system will not be effective. We find that downstream and direct activities play a significant role in the transition. For example, as a company, we manage [XX]MW of renewables across Europe, but this is not recognised as “green”. Additionally, we finance smart meters, enabling the continued use of smart technology across the country, which is also not considered a green activity. Furthermore, the renewable certificates we purchase to ensure that our energy supply to customers is green (we aim for 100% renewable power by 2030 for all customers), which is the official mechanism by which the UK greens electricity, are not deemed a green activity. The GTAG should consider all the official mechanisms the UK has in place to transition the country and ensure these are recognised within the taxonomy.

8. What environmental objectives should a UK Taxonomy focus on (examples listed in paragraph 3.3)? How should these be prioritised?

We appreciate the need to consider sustainability holistically. However, at a company level, we are encouraged to think in terms of materiality. As an energy company with a large carbon footprint and expertise in understanding the impacts of climate change, we believe

that climate mitigation should be the primary focus of the taxonomy. Other environmental topics could follow, with mitigation being the first priority. Addressing climate often concurrently addresses other issues such as nature, pollutants, and biodiversity.

10. When developing these objectives, what are the key metrics that could be used for companies to demonstrate alignment with a UK Taxonomy?

We believe that the financial indicators could be broadened, compared to the EU Taxonomy requirements of capex, opex and turnover, to allow companies to communicate their impact according to the metrics most illustrative for them. For us, revenues can be misleading because we operate in highly regulated markets involving globally priced commodities where revenue can fluctuate significantly but is not a reliable indicator of value creation. Therefore, beyond revenues, we would like to see the option to report gross margin (GM) and total investment, including acquisition costs.

11. What are the key design features and characteristics that would maximise the potential of a UK Taxonomy to contribute to the stated goals? Please consider usability both for investors and those seeking investment. This may include but not be limited to the level of detail in the criteria and the type of threshold (e.g., quantitative, qualitative, legislative).

While a tiered system seems sensible in principle, and rigour is obviously required to ensure greenwashing is reduced, it is important to consider the spectrum of sophistication in disclosure practices across different sectors and company sizes. An opt-in approach to levels of rigour could be beneficial, allowing companies focused on becoming solely green investments and qualifying for green funds to strive for higher standards. As previously mentioned, simple language should be prioritised. Additionally, the “do no significant harm” principle should be reviewed (see below answer).

Additionally, it’s important to note that both the UK legal system and Accounting Framework are principles-based, offering greater flexibility compared to the prescriptive, rules-based approach of EU law and the EU Taxonomy. We advocate for a UK Taxonomy that aligns with the principles-based structure of our legal and accounting systems. This approach would create a more practical and beneficial tool for both companies and information users.

12. What are respondents’ views on how to incorporate a Do No Significant Harm principle, and how this could work?

A Do No Significant Harm (DNSH) system works conceptually. However, in practice, and as the country transitions, it does not always incentivise the activities necessary for the transition, such as electricity storage. These assets are clearly needed for an orderly transition, and their growth depends on private investment in this sector. However, the difficulty in proving that the supply chain is socially sustainable might result in a specific project being labelled as unsustainable, potentially discouraging investment and putting the project at risk. There is a risk for projects that will positively impact climate mitigation to be significantly delayed or under-invested in because the company cannot meet an impracticably high standard of proving that all other elements of the project are sustainable.

A balance must be sought of encouraging companies to make sustainably conscious choices that consider broader topics, but not to the extent of paralysis.

To this end, we must recognise the practical difficulties companies face in disclosing sufficient information to prove DNSH. We believe this should not discourage responsible investment, considering how crucial various transitional and enabling technologies are to decarbonising the nation. One way to reduce the burden would be to link the DNSH principle with existing planning and environmental requirements at the point of operation (e.g., the climate-related physical risks at the sites of solar PV already checked in planning permission processes). Another option would be to prioritise the objectives, although all sustainability topics are important, and establishing a hierarchy is challenging.

13. It is likely a UK Taxonomy would need regular updates, potentially as often as every three years.

Aligning with best practice for climate transition plans makes sense. However, in the initial stages, amendments to the inclusion list might need to be made in a shorter time frame to account for potential oversights and to encourage early engagement with the taxonomy.

14. What governance and oversight arrangements should be put in place for ongoing maintenance and updates to accompany a UK Taxonomy?

As with this consultation, we encourage ongoing dialogue with businesses in creating and maintaining the list of green activities. However, to secure upfront engagement, it is essential to clearly communicate how companies are expected to use the taxonomy.

Centrica is keen to work closely with the GTAG in formalising the structure and design of the UK Green Taxonomy, in addition to any future regulations. We hope you find the above comments helpful. Please contact me if you have any questions.

Yours faithfully,

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