



Suppliers, customers, Non-Governmental Organisations and other interested parties

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*Promoting choice and value for all customers*

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Dear Colleague

### **Final Green Supply Guidelines**

As you may be aware, we published our updated proposals on the green supply guidelines in July 2008<sup>1</sup>. After considering carefully the responses we received to this document, we have made some revisions to the guidelines which represent the final set of green supply guidelines. Green supply is a complex subject and interacts with many areas. As such, the overarching aim of the guidelines is to reduce customer confusion by providing clarity to customers on whether the tariff they purchase, that has been branded as 'green', has an environmental benefit over and above what suppliers are already required to do.

We have been working closely with stakeholders and are pleased to announce that a sufficient number of suppliers<sup>2</sup> have signed-up to the final green supply guidelines and accreditation scheme. The final set of green supply guidelines can be found in Annex 1.

One of the key changes we made is related to the scope of the guidelines; specifically, the final guidelines cover the domestic and Small and Medium Enterprise (SME) sectors and exclude the Industrial & Commercial (I&C) sector. Another key change is the inclusion of a volume test to ensure that suppliers do not double-count the 'greenness' of a unit of renewable electricity. Finally, a supplier must demonstrate that the environmental measure it undertakes, as part of the green tariff, results in the abatement of at least a minimum threshold of Carbon Dioxide equivalent (CO<sub>2</sub>e) emissions. This replaces the star-ranking system that we proposed in the July document based on financial contribution.

Now that the guidelines have been finalised and we have received sufficient support, we expect the participating suppliers to begin implementation of the accreditation scheme immediately. This process will be overseen by Ofgem to ensure that the structure adheres to the key principles outlined in the guidelines. The accreditation scheme should be operational (i.e. begin accreditation of green tariffs) by summer 2009 and will be run by an independent body. We will be inviting suppliers to meet with us in February to begin implementation discussions. This process may lead to detailed accreditation scheme rules which could be appended to the guidelines.

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<sup>1</sup> The consultation document as well as responses to it can be found on:  
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=285&refer=SUSTAINABILITY/ENVIRONMNT/POLICY>

<sup>2</sup> including Good Energy, E.ON Energy, ScottishPower Energy, EDF Energy, RWE Npower, Scottish & Southern Energy and British Gas

Finally, we would like to take this opportunity to thank you for the valuable contributions that you have made in furthering the debate in this area.

Please contact Sabreena Juneja on 0207 901 7344 if you would like to discuss any element of this letter further.

Kind regards

**Martin Crouch**  
**Director, European Strategy & Environment**

## Annex 1 – Final Green Supply Guidelines

### 1. Aims of the guidelines

1.1. The key aim of these guidelines is to provide clarity to customers on whether green tariffs are truly 'green'. This in turn requires that, where tariffs are marketed as 'green' by suppliers, they must apply the following principles:

- **transparency:** tariffs need to be clear and consistent with public understanding and expectations as to what constitutes green supply. Customers should have easy access to specific information regarding the tariff as well as more general information regarding the way that the electricity market, supplier obligations and green tariffs interact. The requirements on transparency, under these guidelines, are discussed in further detail in Sections 1.6 to 1.13 below;
- **evidence of supply:** suppliers will need to have and retain evidence, for the duration of the relevant compliance period, to verify all claims regarding both the source of electricity supply and additionality (as described in the next bullet) so that this can be made available to the public or an external verifier. The requirements on evidence of supply, under these guidelines, are discussed in further detail in Sections 1.14 to 1.21 below;
- **additionality:** customers choosing a green tariff need to be able to be satisfied that their support is contributing to additional environmental benefits or additionality. As such, they must be assured that the environmental benefit secured through their decision to sign up to the tariff would not have occurred in the absence of this decision. Benefits derived from existing support schemes, e.g. through the Renewables Obligation (RO) or under the Carbon Emissions Reduction Target (CERT), are not included. For example, assigning renewable electricity supported by the RO to a green tariff is not, in itself, evidence of additionality under these guidelines. A minimum requirement in demonstrating additionality should be met by suppliers to achieve accreditation under the scheme. The requirements on additionality, under these guidelines, are discussed in further detail in Sections 1.22 to 1.24 below; and
- **accreditation:** suppliers who have signed up to the guidelines will be required to agree and develop an accreditation scheme within given time periods. This process may result in detailed accreditation scheme rules which could be appended to these guidelines. The scheme will require the employment of an independent accreditation body (details to be agreed). The aim of having the tariffs accredited will be to provide assurance to consumers that suppliers are actively engaging in the activities in which they claim they are undertaking within their marketing materials. The presence of an independent third party at the centre of the scheme will facilitate the feeling of assurance achieved by consumers and ensure that there is no bias, towards any one supplier, within the scheme itself. The development of the scheme will be overseen by Ofgem to ensure that its structure adheres to the key principles outlined in these guidelines.

1.2. These guidelines place additionality as a core principle. As a result of these guidelines, it must be clear to customers whether their tariff provides additional environmental benefits or not. This is consistent with consumer expectations of what a green tariff should constitute<sup>3</sup>. It is also crucial that customers are able to understand clearly and easily what they are getting in terms of environmental benefits.

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<sup>3</sup> This is consistent with the conclusions reached through Ofgem's consumer research, carried out in December 2007, which highlighted that the key motivation for consumers in signing up to green tariffs is to facilitate additional environmental benefits. The conclusions of the research are available at:

## 2. Status of the guidelines

1.3. These guidelines are voluntary in nature and, given the high level nature of the principles contained within them, the green tariff products supported should be capable of evolving over time in line with the evolution of the market. However, where a signatory or other interested party considers that certain provisions within these guidelines need to be revised, they should notify Ofgem. Ofgem will subsequently consider whether a consultation regarding this proposed amendment is required.

## 3. Scope of the guidelines

1.4. The guidelines apply to green tariffs targeted at both domestic and Small and Medium Enterprise (SME) customers that are offered by suppliers who are signatories to the guidelines. For the purpose of these guidelines, SME is defined as having an annual electricity consumption of less than 55,000 kWh<sup>4</sup>.

1.5. Further, the guidelines cover renewable tariffs only not low carbon tariffs such as good quality Combined Heat and Power (CHP) or nuclear.

## 4. Transparency

### General requirements

1.6. All marketing material and related information should be based on correct, up-to-date and specific information about the product that is being offered. Information provided regarding the market more generally and the obligations with which suppliers must comply should also be up-to-date and accurate.

1.7. The use of images and symbols should reflect the product being offered; for example, the use of images of wind generation should only be used where a supplier sources a substantial portion of its generation from wind. The exact detail of these arrangements will be agreed through the discussions that take place to establish the accreditation scheme.

### Provision of information on a tiered basis

1.8. In recognition of the different needs of consumers regarding the provision of information, suppliers must provide information to consumers on a tiered basis. The first tier of information will outline some of the key information which consumers should be aware of in advance of signing up to a green tariff. The second tier of information will provide an explanation of these symbols and the third will provide general contextual information regarding green tariffs and the electricity market. The requirements for the provision of information under the first, second and third tiers are outlined in more detail in paragraphs 1.9 to 1.13 below.

#### *Tier 1 information*

1.9. The supplier must provide tier 1 information to customers at the point of sale<sup>5</sup>. The supplier should also include tier 1 information regarding green tariffs on its website and in all marketing material. This information must include:

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<http://www.ofgem.gov.uk/Sustainability/Environmnt/Policy/Documents1/Final%20Report%20from%20Mori%20re%20Consumers%20Views.pdf>

<sup>4</sup> Follows the definition used as part of the Energy Ombudsman

<sup>5</sup> Before a customer enters into contract for a green tariff

- a **Fuel Mix Disclosure chart** illustrating the relevant fuel mix of the supplier<sup>6</sup> which shows the different energy sources used and the percentage of each source making up the fuel mix. This will provide an indication to customers of the environmental credentials of the supplier. This requirement is in line with legal obligations on active suppliers to provide information to each customer that has received a bill or statement, in the 12 month period commencing 1 October, regarding the contribution of each energy source to the total amount of electricity purchased for supply by the licensee<sup>7</sup>;
- an **additionality description**, in plain language, briefly outlining the environmental measure/activity that the supplier is undertaking on behalf of the customer to demonstrate additionality. If the activity is carbon offsetting, then this must be explained very clearly and the carbon offsetting product used by the supplier must be compliant with the Government's Quality Assurance Scheme for Carbon Offsetting<sup>8</sup>; and
- an **additionality symbol/mark** demonstrating that the environmental measure/activity as part of the green tariff results in the abatement of at least a minimum level of Carbon Dioxide equivalent (CO<sub>2</sub>e) emissions.

1.10. Where it is not possible to provide a pictorial representation of these attributes of the green tariff at the point of sale, consumers must be made aware of this information prior to entering into a contract for a green tariff.

#### *Tier 2 information*

1.11. The second tier of information should be available from a publicly accessible resource (e.g. the supplier's website) or in printed materials and must explain the symbols presented in the first tier. As such it should provide details of:

- the key messages that the fuel mix chart is seeking to convey;
- the specific fuel sources that are referenced in the fuel mix and the key attributes of these fuel types;
- a website link or reference to the information that the supplier produces regarding their overall fuel mix;
- the environmental measure that has been supported as a result of the purchase of this particular tariff, specifically what this will mean in practical terms; and
- an explanation of the minimum threshold for additionality and how it was met and derived for the tariff in question.

#### *Tier 3 information*

1.12. Tier 3 information should also be available from a publicly accessible resource or in printed materials and suppliers should ensure that customers are made aware of this information in any marketing material or correspondence relating to the green tariff. This information must include the following:

- suppliers have a Renewable Obligation (RO) under which they have to either pay a fee to Ofgem and/or buy Renewable Obligation Certificates to fulfil their annual obligations;

<sup>6</sup> If a supplier has multiple licences then it must use the FMD chart specifically related to the relevant licence.

<sup>7</sup> The requirement is contained at paragraph 4(a) Standard Supply Licence Condition 21

<sup>8</sup> <http://offsetting.defra.gov.uk/>

- the Government's ongoing aim of the RO is to encourage an increased amount of electricity to be generated from renewable technologies;
- the average amount that domestic/SME (as appropriate) customers on a standard electricity tariff are already contributing to renewable energy as a result of the RO<sup>9</sup>;
- a description of suppliers' Carbon Emissions Reduction Target (CERT) obligations;
- the Government's ongoing aim of the CERT is to encourage an increased amount of energy efficiency by domestic customers;
- the average amount that average domestic/SME (as appropriate) customers on a standard electricity tariff are already contributing towards the supplier's CERT obligations<sup>10</sup>;
- for SME tariffs, a description of the Climate Change Levy (CCL) and levy exemption regulations; and
- for SME tariffs, the average contribution that SME customers make to support renewables through the CCL.

1.13. The measures that will be applied, including possible sanctions, in the event that suppliers are not compliant with these requirements will be determined through the development of the accreditation scheme. Furthermore, the way in which tier 1, 2 and 3 information is presented will also be agreed and standardised through the development of the accreditation scheme to ensure consistency and facilitate greater customer understanding.

## 5. Evidence of supply

1.14. Suppliers will need to conform to the legal requirements relating to Fuel Mix Disclosure, as set out in Standard Supply Licence Condition 21 (Fuel mix disclosure arrangements), when making any claims regarding their overall generation portfolio.

1.15. Evidence of supply should be retained for the suppliers overall fuel mix and this evidence should follow the requirements of paragraph 8 of the Electricity (Fuel Mix Disclosure) Regulations 2005. Where particular generation sources are specified, the supplier should provide this evidence by category of generation source.

1.16. Evidence must also be retained (period to be agreed) regarding the environmental measure(s) in which the supplier has engaged in on behalf of its customers.

### The volume test

1.17. To ensure that double or triple counting the 'greenness' of a green tariff does not occur and that there is consistency across the market, the following volume test applies:

*A supplier must hold the requisite number of Renewable Energy Guarantee of Origins (REGOs) to support the volume of renewable supply in a green tariff/contract. The supplier must also either retire or redeem any associated Levy Exemption Certificates (LECs) to ensure that they are not later sold on to other customers.*

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<sup>9</sup> Figures to be provided by Ofgem

<sup>10</sup> Figures to be provided by Ofgem

1.18. Imports of renewable generation from outside of the UK is treated as follows under the volume test:

*If the electricity is from a generator that has been issued with LECs then the supplier must retire the LECs and hold the requisite number of non GB or NI issued Guarantees of Origin recognised by Ofgem. If the electricity is from a generator that has not been issued with LECs then the supplier must purchase and retire LECs and hold the requisite number of non GB or NI issued Guarantees of Origin recognised by Ofgem.*

1.19. Even once the volume test is met, a supplier cannot make claims that a green tariff is either carbon-free or “100% renewable electricity”. However, a supplier can claim that it has matched the amount of electricity sold under its green tariffs with purchases of renewable electricity, if this is the case.

1.20. Furthermore, a green tariff must meet both the additionality<sup>11</sup> and volume tests to receive accreditation under the green supply guidelines. Fuel mix allocations will not be taken, by themselves, to imply that a green tariff is additional and therefore further measures are necessary to be accredited under the green supply guidelines.

1.21. Suppliers can sell Climate Change Levy (CCL) exempt supply or LEC-backed supply under the guidelines only if the tariffs meet both the additionality and volume tests as set out above. Suppliers can also sell unaccredited CCL-exempt supply but this should not be described as green supply.

## **6. Additional benefits associated with the tariff**

1.22. For green tariffs to obtain accreditation under the scheme, suppliers must also demonstrate that the relevant tariffs incorporate a certain minimum level of additionality. In demonstrating this, suppliers must first show that they are undertaking an activity or measure that results in the delivery of an environmental benefit that would not occur under a “Business As Usual” Scenario, consistent with the description of additionality in paragraph 1.1 under these guidelines. The supplier must then demonstrate that the additionality measure/activity that it is undertaking results in the abatement of at least a minimum level of CO<sub>2</sub>e emissions, as described below, and this must be certified through the accreditation scheme.

### The additionality minimum threshold test

1.23. For measures of additionality to qualify under the guidelines it is necessary that they are not only compliant with the requirements outlined above but that they also result in the abatement of at least a minimum level of Carbon Dioxide equivalent (CO<sub>2</sub>e) emissions. For domestic green tariffs, this minimum threshold level depends on the activity that the supplier is undertaking to demonstrate additionality:

- for carbon offsetting activities, the minimum threshold is currently set at 1 tonne of CO<sub>2</sub>e emissions abated per tariff per annum. The carbon offsetting product used by the supplier must be compliant with the Government’s Quality Assurance Scheme for Carbon Offsetting<sup>12</sup>; or
- for all other additionality activities, the minimum threshold may be a figure less than 1 tonne of CO<sub>2</sub>e emissions abated per tariff per annum but must be of broadly equivalent materiality. The minimum threshold for all other activities shall be

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<sup>11</sup> As outlined in paragraph 1.23

<sup>12</sup> <http://offsetting.defra.gov.uk/>

agreed by all signatories to the guidelines before the accreditation scheme is fully operational.

For SME green contracts, the thresholds should be scaled upwards based on the electricity consumption of the SME<sup>13</sup>.

## **7. Assessment of whether a benefit is additional**

1.24. A degree of responsibility and self-governance is required from suppliers in interpreting the additionality provisions and ensuring that something would not have happened under a "Business as Usual" scenario. This will be monitored as part of the accreditation scheme to ensure that suppliers that are signed up to the guidelines and accreditation scheme remain compliant.

## **8. Third party assessment of green tariffs**

1.25. Implementation of these guidelines will require suppliers to agree a governance structure for the accreditation scheme for green tariffs.

1.26. The scheme should include provisions to ensure the auditing and verification of claims and the creation of an additionality symbol/quality mark which can be assigned to all tariffs that fulfil the requirements set out in these guidelines.

1.27. Once the accreditation scheme is in place and sufficient experience has been gained, Ofgem will review the guidelines to determine the possibility of extending them to include the I&C sector, low carbon tariffs and green gas. Ofgem will also revisit the additionality thresholds and consider the possibility of developing a ranking system, based on CO<sub>2</sub>e emissions abated, that allows for greater differentiation between tariffs. However, where a signatory or other interested party considers that certain provisions within these guidelines need to be revised, they should notify Ofgem. Ofgem will subsequently consider whether a consultation regarding this proposed amendment is required.

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<sup>13</sup> For example, if the electricity consumption of an SME is 25,000 kWh per year, then the green contract that it purchases should result in the abatement of about 7.6 tonnes of CO<sub>2</sub> emissions per annum (based on an average household electricity consumption of [3,300] kWh per annum) if the environmental measure is carbon offsetting.