



*taking care of the essentials*

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**OFGEM CONSULTATION  
REVISION OF GUIDELINES ON GREEN SUPPLY OFFERINGS**

**A RESPONSE BY CENTRICA**

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## 1 INTRODUCTION

Centrica welcomes the opportunity to respond to this consultation on the revision of the guidelines on green supply offering. We consider it important that the guidelines are reviewed in light of the number of related issues that have evolved since the previous guidelines were published in 2002.

We agree with Ofgem that the key features of any green supply offering should be transparency, additionality and verification. These are important to aid customer understanding of product offerings. At the same time it is important that the guidelines are unambiguous, clear and easy to follow, thus allowing suppliers to innovate successful customer propositions that they can be confident comply with the guidelines.

Although the renewable energy market has seen various changes since the initial Guidelines were published in 2002, the fact that there is a multitude of policies remaining in the market requires a careful consideration for the introduction of any new Guidelines. Centrica is concerned that there is a real potential for confusion being created, and that further clarification is needed in some areas. For example the consultation document points out (para 3.18) that renewable electricity can be verified by REGOs, ROCs, LECs or evidence from supply contracts. The document suggests that REGOs should be used going forward, but the existence of all the other mechanisms will be a real source of confusion unless the guidelines are very clear. It is important that these three certificate schemes should be recognised as being quite distinct and serving different functions.

Levy exempt certificates are a mechanism for the customer (and their supplier) to avoid climate change levy because the supplier has a quantity of LECs, which were probably (but not necessarily) obtained in association with electricity from a renewable source. LECs have a financial value determined by the tax rate under the CCL.

Renewable Obligation Certificates are simply a financial mechanism to stimulate investment in development of renewable power generation. They have a value in excess of the actual power generated and this is determined by the availability of ROCs against the level of the Obligation placed on the market. They are frequently traded independently of the power associated with their production.

REGOs are a mechanism for the supplier to verify the amount of renewable generation in their fuel mix disclosure table. They are generally associated with the quantity of renewable electricity purchased by the supplier but may be obtained independently of the electricity generated at their creation. REGOs have no value as issued.

If REGOs are to be used going forward then there needs to be a real rigour in the systems and registers which are used to account for REGOs and to deal with tracking them when they change hands. As indicated, REGOs currently have no financial value. On the other hand ROCs have significant value. As a result the systems built for accounting for and transferring ROCs are robust, reliable and audited - otherwise market participants would have significant amounts of money at risk. It is the financial value of ROCs that drives reliable tracking systems. It is a concern that as there is no financial value associated with REGOs that the REGO system is not as robust.

The main thrust of the Guidelines appears to focus on green offerings to domestic customers, whilst the majority of green supply products are sold to non-domestic customers. It is thus important that Ofgem give full consideration to issues that only affect

this market segment, such as CCL or Levy Exempt products. As the guidelines currently stand, the relationship between CCL exempt and REGO supported electricity is not sufficiently clear.

Whilst we support Ofgem's objective of achieving agreement across the industry for one single measure of evidence for renewable energy, it is apparent that there is no one single measure which will alleviate problems with existing 'green' supply products in the market. Were Ofgem to include non-domestic supply within the remit of the reviewed Guidelines, it is important that this change is made clear to all suppliers and all customers. A timeframe in which to disengage from historic perceptions of green supply and in which suppliers should aim to conform to the new Guidelines would be welcome.

A final introductory point that we believe Ofgem should consider is the definition of green supply. Within this consultation, green electricity is used synonymously with renewable electricity supply. We would challenge this limited interpretation, and would suggest that in the context of driving customer awareness of environmental issues, thereby assisting government to meet the Kyoto Protocol, that other carbon reduction technologies could be included.

In this response we consider the three features of the proposed revised guidelines: transparency, additionality and verification.

## **2 TRANSPARENCY**

Transparency is a key factor to enable customers to make educated decisions on their product choices. We agree with Ofgem that transparency is highly desirable and on the face of it any claims made by suppliers about the quantity of renewable generation claims should be consistent with the requirements of the fuel mix disclosure condition.

However such transparency may not be possible. In a case where a supplier has a considerable quantity of LECs from electricity purchased in a previous period(s) it would be quite permissible for the quantity of electricity sold as CCL exempt to be considerably greater than the amount of electricity obtained from renewable sources (and supported by REGOs) during the contract period.

Therefore Ofgem must consider the effect of these guidelines on the relevant periods and recognise that there could be several years before the potential change in supplier propositions can be made.

Where products are sold based on other technologies such as retiring of carbon certificates there will no longer be any link with the requirements of Fuel Mix Disclosure and the suggested transparency through linkage to Fuel Mix Disclosure will not be possible.

If suppliers are selling a product that is described as green there should be supporting evidence available. However there appears to be a great deal of confusing information in the market and Ofgem has also indicated that there are various mechanisms available. We believe that there should be clear distinction between LECs, REGO and ROCs. They are not interchangeable and each serves a different purpose, as highlighted in the introductory part of this response.

We support that customers should be informed of the source of their electricity. Operational constraints must be taken into account, i.e. sources should be averaged over a prior period or across a customer portfolio rather than allocating specific REGOs to individual customers. The latter would create an additional administrative burden without clear benefits.

Customer perception of images of windmills and wind generation is becoming synonymous with environmentally friendly generation technologies. Whilst we understand Ofgem's concerns about misleading customers through the use of images and symbols, we would urge it to take into account this feature of customer understanding and association of imagery.

The issue of whether or not CCL exempt energy in the commercial market could be sold as green is confusing. The Guidelines issued by Ofgem must be consistent with current HM Customs and Excise rules that specifically require the terminology 'renewable source contract' for CCL exemption to be applied. These rules also require matching LECs with the supply which provides the evidence that the supply contracts are properly supported by the supplier's actions. It would be entirely inappropriate to additionally require that such contracts be supported by REGOs. These two conflicting definitions would thus suggest that a levy exempt contract is renewable but not 'green' unless it has an associated REGO, and a 'green' contract is not levy exempt unless it has a LEC.

Meanwhile, because of the requirements of HMCE it is quite possible that the customer believes that a "renewable source" contract is green even if the supplier had not sold it on that basis.

We suggest that the existing LEC mechanism operates in a satisfactory manner and that this mechanism should not be changed unless there is a change in the requirements of the Climate Change Levy.

LECs can only be sold in the non-domestic market. If all LECs must be supported by REGOs, this limits the possibility of offering green electricity supply in the domestic market. A supplier either cannot sell green domestic propositions, or loses potential income by not being able to dispose of all LECs in the non-domestic market, as they would be unsupported by REGOs. This would surely be contrary to government objectives to reduce carbon.

Another consideration of many customers in discussions of environmental aspects of electricity supply is the CO<sub>2</sub> emissions relating to their supply. This is omitted from the Guidelines. We believe that this should be clarified either within the Guidelines or elsewhere. This could introduce carbon reduction generation into green supply offerings, instead of relying solely on renewable electricity.

### **3 ADDITIONALITY**

We welcome the choice of three options to show additionality as set out by Ofgem in 2.7. These allow a degree of freedom, however there remains a conflict between the use of REGOs as the base measurement of renewable generation and ROCs to prove additionality. This we believe will prove confusing to suppliers and customers alike.

It is Centrica's understanding that REGOs on their own do not demonstrate additionality. REGOs can be used for the "transparency/verification of supply" part of the guidelines, but not the additionality claims.

ROCs are a relatively weak linkage to additionality since the retiring of ROCs would only have a small effect on the financial incentives to invest in new build. Furthermore, Ofgem's additionality suggestion of supplying renewable electricity beyond the level of the Renewable Obligation can only be valid where the generation technology is one included within the Renewable Obligation definition. As Ofgem itself states, the renewable technologies that can be supported by REGOs are not all eligible for ROCs.

The retirement of ROCs does result in the supplier facing increased expenditure. Whereas this is expected to lead to future generation development, it is not apparent how quickly this will occur, as investment decisions must take other factors into account, some unrelated to the immediate renewable electricity generation industry. This does therefore raise the question of the value of retiring ROCs, in particular the timeframe of the potential additional value.

We believe that other options for demonstrating additionality should exist and we agree that one such mechanism would be the retirement of the EU-ETS or other carbon certificates (such as those accredited by Clean Development Mechanisms). However since the whole position on carbon trading is only just emerging we urge Ofgem to avoid taking any prescriptive approach – such as suggesting any particular links since this would be likely to stifle innovation in this area.

Whilst we support the establishment of definitions, measurement and minimum standards for additionality, we believe that these should be set within a framework rather than in absolute terms to allow suppliers the freedom to innovate a range of customer propositions. Thus we would support the potential use of the EU-ETS as one methodology to proving additionality, but enforce that any suggested methods by Ofgem should be an inclusive rather than a limited list of options.

We consider it important that suppliers do not blur the lines between existing obligations; that they do not use these to try and show additional investment for green supply offerings. Thus, investment in genuine environmental improvements that are undertaken as part of other supplier obligations such as EEC should not be used to prove additional investment within the remit of these Guidelines. Any further investment should be as a result of consumers demanding such innovations through product take up and market forces.

The requirement to show additionality conflicts with the points made in 2.5 and 3.15, whereby it is suggested that non-domestic product offerings would not require additionality to be labelled as 'green'.

We support the suggestion that suppliers should inform customers whether the green supply offerings will actually deliver additionality, and on what basis, although mindful of making product propositions too complicated. In this we would not favour having to explain to customers which of the three options is used and which two are not.

## 4 VERIFICATION

We support that suppliers should evaluate and fully document green supply offerings as long as this is not too bureaucratic and that Ofgem does not specify verification bodies that could bring excessive costs to the businesses concerned.

We support the third option given for verification by a third party accreditation or audit. Furthermore we believe that the choice of organisation used for verification purposes should be left open to the supplier concerned.

#### **4.1 VERIFICATION OF SUPPLY**

To avoid market distortion and potential double counting of green supply offerings, we consider it important that suppliers are able to verify that renewable energy sold as part of a green supply offering does not exceed the total amount of renewable generation claimed in the supplier's fuel mix disclosure. In this we would encourage the use of average household consumption to eliminate the otherwise high administrative costs.

To facilitate transparency and customer comprehension, we believe that it is important to have an agreed standard of evidence to support renewable energy supply. In our view, the most appropriate standard is REGOs, as is argued by Ofgem in point 3.21. The use of REGO is preferred over ROC; as the latter can be removed from the market or sold on to other parties thus potentially distorting the overall view of renewable energy supplied.

We would support the use of a system of third party verification for green supply in Great Britain. We believe that suppliers should be free to choose the organisation it uses for verifying its claims, to accommodate the potential range of offers and hence the suitable organisations for accrediting the statements. Possible organisations could be ASA or the Environment Society who have experience of verification, such as ISO14001. A single methodology would not necessarily aid customer comprehension or confidence in their ability to compare and contrast competing propositions. Essential for this are clear guidelines for suppliers to follow when developing and enhancing customer propositions.

#### **4.2 VERIFICATION OF ADDITIONALITY**

While we support Ofgem in its proposition to use REGOs as the base for verifying the source of renewable electricity generation, as indicated already, they cannot be used to show additionality of renewable supply. In contrast, while ROCs can be used to show additionality beyond a legal obligation to suppliers, it may not always be possible to demonstrate additionality since ROCs may have been deleted from the register, . Again we would highlight that ROCs can only be used as proof of additionality for ROC supported technologies, hence excluding certain renewable generation or indeed other carbon reduction technologies, that are or could be considered as green electricity. Ofgem must carefully consider the potential supplier and customer confusion from using two different mechanisms, REGO and ROC, to verify renewable offerings, the former for supply and the latter for additionality.

In 3.15 Ofgem suggests that REGOs and LECs on their own are enough to provide 'green supply' to commercial customers (as distinct from a levy exempt tariff). Can suppliers thus take this argument and claim that REGO on its own is enough to prove a green supply offering in the domestic sector, that is without any demonstration of additionality?

We agree that where premiums raised from the renewable offering are paid into a fund to develop future generation that this should be done in a clear and auditable manner. As stated above it is unclear why there is a reference to ROCs in 2.19, as Ofgem is proposing that REGOs be used as the base for green supply offerings. Is the suggestion that ROCs should be retired where a green fund contributes to the building of renewable generation? As previously stated this would only be valid for ROC supported technologies. Furthermore the timeframe of additionality from retiring ROCs is undefined. We fully support the use of accreditation of green supply offerings by third party organisations, as we believe that this will be key to support the confidence of customers in any new propositions. This may also eliminate areas of confusion highlighted above.

## **5 FINAL REMARKS**

While we support Ofgem's attempt to update the green supply offering guidelines to accommodate the developments in this field, we believe that it is essential that the resulting guidelines are unambiguous, clear and easy to follow. This will increase the confidence of suppliers that they are compliant with the guidelines, and should also ensure that offerings are themselves clearer to aid customer understanding and adoption of such product offerings.

This consultation has stimulated a great deal of thought. We have raised a number of points that we urge Ofgem to consider and to take on board in producing clear and transparent guidelines for suppliers. We look forward to a further revision of the guidelines on green supply offering.

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