

DTI's Response to Ofgem's Consultation on Revision of Guidelines on Green Supply Offerings

11 July 2005

DTI is grateful for the opportunity to respond to this consultation and our response is set out below.

Draft Revised Guidelines

2.1: Agree that the key features of green supply offerings are transparency, additionality and verification. Under "transparency", it is also worth making the point that offerings need to be readily understandable to customers. Anything too complex is likely to make most consumers turn away.

2.16: As stated below, we have some doubts about the extent to which retirement of ROCs represents additionality. There should perhaps be a cross reference here to Box 2 on page 16.

2.21: Suggest an additional sentence to the effect that the accreditation scheme needs to be visible so that consumers can simply "look for the logo" to assure themselves that a green supply offering has been accredited.

Section 3: Issues considered in revising the guidelines

3.10: The definition of renewable sources here appears to be that in Article 2 of the EU Renewables Directive. Since this is the qualifying criteria for REGOs, there should perhaps be a reference to the Directive here.

3.11. Is it worth including after the first sentence: "For example, some renewable technologies, eg large hydro and incineration of mixed wastes, are not eligible under the Renewables Obligation."

3.16: Views are sought on the treatment of supply to non-domestic customers in the revised Guidelines.

There is an argument that it is for non-domestic customers to negotiate their supply as part of their contract. However, for practical purposes the smallest SMEs are in a similar position to domestic customers in terms of negotiating with suppliers. It may however over-complicate matters to restrict the application of the guidelines to SMEs, and we appreciate that there is a clear division in a range of consumer-oriented legislation and regulation between the protection available to domestic and business customers.

3.18: It might be worth adding after "Renewables Obligation", "(ie over and above that required of suppliers in order to meet their obligation)" in order to clarify matters.

3.23 : Views are sought on:

- **the need for an agreed standard of evidence to support supply of renewable energy;**
- **whether REGOs form an appropriate basis for any agreed standard of evidence, and**
- **how industry-wide agreement on a standard for evidence could be achieved.**

DTI believe that REGOs should be used as the basis for evidence of supply of renewable energy. Under the licence condition implementing the fuel mix disclosure provisions that came into force this year, suppliers will, from 1 July 2007, have to demonstrate the source of their supply using REGOs. It is important that an additional burden in the form of other evidence requirements is not placed on suppliers in terms of demonstrating greenness to customers, and using REGOs for this purpose would minimise such a burden. In addition, as all renewable electricity is eligible for REGOs, it is therefore a standard of evidence which can be used across the board unlike ROCs which can only be claimed for renewables which are eligible under the Renewables Obligation.

Whatever system is used, it is vital to ensure that double counting is avoided. The Renewables Directive is silent on the issue of whether REGOs can be traded separately from the associated electricity. But, where such trading takes place, it is important to address risks of double counting. We think that the best way of preventing double-counting is to regard the REGO as the evidence for green supply even if it has been traded separately to the electricity. However, it would seem unduly burdensome to require a contractual trail in addition to the REGO. This approach does present a risk that some potentially anomalous situations may occur where the purchase of the REGO could enable suppliers of “brown” electricity to claim it as green. However, in the real world, we cannot sensibly follow electrons. In addition, since generators of green electricity are likely to wish to see their product at a premium price to reflect the green element, it seems unlikely that they would be prepared to sell the REGOs separately from the electricity since that leaves them with electricity to sell which (without the REGO) they can no longer claim as green, and therefore will no longer command a premium price.

If this approach were taken we would question paragraph 2.13 and the necessity of providing supporting evidence if a supplier is presenting a REGO, since the REGO is, in effect, the evidence required. To a degree, paragraph 3.24 recognises this point.

3.34 Given the debate concerning the definition and measurement of additionality, Ofgem seeks views on the following issues:

- **how should definitions, measurement and minimum standards for additionality be set?**
- **does the retirement of ROCs provide sufficient evidence of additionality?**
- **How can suppliers otherwise demonstrate that green supply offerings deliver benefits above the legal requirements of the Renewables Obligation?**
- **Would there be a role for suppliers to retire EU-ETS allowances to**

demonstrate additionality?

Key to the issue of green offerings is that the consumers understand what they are getting, how it is beneficial and when they pay extra for a green electricity supply, what this extra money is going to be spent on. It must also be clear that any green supply offering includes an element of additionality over and above a supplier's renewables obligation. (Without an element of additionality, the offering can hardly be described as green.)

We agree with the consultation document that wider environmental benefits should be considered under additionality and that it is essential that a system of verification is set up under accredited third-party certifiers who would be accountable to an accreditation body. However, we would not expect these certification bodies to provide definitions, measurements or make qualitative judgements on what is additional. This approach could lead to league tables, which we do not consider to be appropriate. Instead we would envisage a body which would verify firstly that the schemes met the test of additionality, and second that the various elements of the schemes in place were as stated by the supplier, and that any statements setting out the form of additionality or environmental benefit were justified and set out in clear, simple terms. It would then be for the consumer to make a judgement on the value of this additionality.

We are not convinced that the retirement of ROCs demonstrates additionality and support the arguments put forward in the consultation document that retiring ROCs does not create extra generation at present given that renewable generation is running some way behind the level of the Obligation, and that this will continue to be the case for some years. In these circumstances, it is difficult to see how retiring ROCs provides additionality. It could be argued that presenting the ROC and so receiving recycling payments from the buyout fund could be a better way to demonstrate additionality as these payments could be used for alternative green offerings.

3.39 Views are sought on the need for a system of third-party verification for green supply in Great Britain, the form this system should take, the possible organisation or organisations that could carry this out, and the preferred funding mechanisms.

It is absolutely essential, to enable consumers to make informed decisions, that a system of third-party verification, using independent accredited certification bodies is used, and ideally one that is recognised and trusted by consumers.

Accredited certification under the United Kingdom Accreditation Service (UKAS) would provide customers with the assurance of independent evaluation and validation to a recognised standard and would act to increase confidence and remove uncertainties.

UKAS operates under a Memorandum of Understanding (MoU) with the DTI, which recognises UKAS as the sole national body for the accreditation of certification, testing, calibration and inspection to a particular series of standards. This includes the certification of environmental management and audit systems. (More information can be found under 'Conformity assessment and Accreditation' at www.dti.gov.uk/strd/strdpubs.html)

The Government actively encourages certification bodies to become accredited by UKAS. The Government also encourages organisations; particularly government departments, agencies, regulators and local authorities, to use UKAS accredited certification bodies (wherever these are an option) when seeking certification.

Appendix A:

Though not strictly part of the consultation, we note that paragraph A.1.24 refers to the Eugene standard which apparently includes natural gas-fired CHP as an eligible source. This looks odd given that natural gas is a fossil fuel and therefore, by definition, not renewable. Such electricity could not, for example, be eligible for REGOs.

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