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Dear John

Revision of Guidelines on Green Supply Offerings

Thank you for giving Energy Saving Trust (EST)¹ the opportunity to respond to the above consultation. Please note this response should not be taken as representing the views of the individual Trust members.

We fully support the assertion made in the opening paragraph of the consultation:

“For customers to make appropriate choices about green supply offerings, reliable information is necessary on the nature of the offer being made. Unreliable or misleading green claims limit the potential of green supply offerings to bring about environmental improvements because they discourage suppliers’ investments in genuine environmental improvements and can de-motivate consumers.”

Furthermore, we agree that green supply offerings need to be:

- **Transparent** (i.e. clear and consistent with public expectation of what constitutes “green energy”),
- **Additional** (i.e. making a difference) and
- **Verifiable** (open to public scrutiny, either directly or through third parties).

These principles underpin EST’s views on what needs to happen to make the green supply market successful for suppliers, credible for consumers and beneficial to the environment.

As you are aware, EST developed and launched Future Energy in 1999 as a UK-wide green tariff accreditation scheme with Governmental funding and the backing of 11 electricity suppliers. However, the subsequent introduction of the Renewables Obligation in 2002 resulted in the closure of Future Energy, as there was a lack of consensus as to what constitutes additionality in the context of the new market dynamics. Notwithstanding the useful clarification put forward in paragraph 2.7, there remain strongly differing views from the range of stakeholders as to what represents a credible green offering in terms of additionality.

In the absence of an accreditation scheme, consumers have no means of reassurance that the environmental claims of different supply offerings can be

¹ EST was set up by the Government following the 1992 Rio Earth Summit and is one of the UK’s leading organisations addressing the damaging effects of climate change. EST’s goal is to achieve the sustainable and efficient use of energy, and to cut carbon dioxide emissions, one of the key contributors to climate change.

substantiated. The shortcomings of the current situation is further illustrated by the withdrawal of the Friends of the Earth league table in 2004, due to the lack of resources to verify each company's true credentials and the consequent need to take a lot of the information received on trust². As a result, there is at present virtually no grass roots consumer demand for green offerings.

EST strongly supports the re-establishment of third party accreditation which would provide this market the credibility it needs. Such a scheme could also act as a vehicle to underpin an expansion of green supply uptake by promotion through the various agencies such as NGOs, energywatch, web based tariff information providers and EST's own activities (e.g. sustainable energy network).

We recognise it is not within Ofgem's jurisdiction to require suppliers to participate in any form of accreditation scheme, nor indeed to police their offerings. However, we feel that the available mechanisms for policing, as described in the appendices, are inadequate to deal with the complexity of this market. We therefore feel that, as an industry, energy suppliers should voluntarily agree to participate collectively in a self-verification scheme, which we feel would be substantially strengthened if it were also supported by the relevant authorities.

EST itself is well placed, by virtue of its past experience, its independence and its existing suite of sustainable energy accreditation activities, to develop and manage such a scheme on behalf of the industry. Without prejudice, we would be pleased to discuss with energy suppliers, Ofgem, Government and other stakeholders the case for such a scheme in the light of comments received from this consultation and to put forward a formal proposal. Please see discussion below in response to clause 3.39.

In view of the sensitivity of different stakeholder groups to different forms and types of renewables, EST strongly supports the proposal that suppliers should specify which technologies are supported by their green offerings.

Evidence of supply (clause 3.23)

EST recognises that using Renewable Electricity Guarantees of Origin (REGOs) as evidence would be consistent with the rules that apply under the new fuel mix disclosure supply licence condition. However, the multiplicity of certificate mechanisms now in place (REGOs, ROCs and LECs), and the various rules underpinning them³, means that the "environmental benefit" of each unit of renewable electricity generated could be claimed in up to three places:

- Compliance with the RO;
- Levy exempt supply to the non-domestic sector
- Green supply offering

We understand, for example, it would be possible for a supplier to use their ROCs for RO compliance in the normal way, but for REGOs to be packaged to cover its "green supply" customer base, such that these offerings could be claimed as 100% renewable. However, in the absence of other environmental benefits, such an offering could not credibly claim to be meeting the additionality criterion of the guidelines. Nor would it result in additional green purchase/generation by the supplier over and above what they would be doing by virtue of the RO.

² *The Guardian*, 20th November 2004

³ Issues such as eligible renewable sources, tradability, use for compliance purposes, fuel mix disclosure etc

In an ideal world, to avoid all such ambiguity, there would be only one green electricity certificate system in place which could be used only once for any of the possible uses (supplier obligations, green offerings, tax exempt supply or other purposes). A central register, managed by Ofgem, would provide a clear, independent and publicly accessible means to identify the purpose for which each certificate is used. We recognise that such a system is unlikely to be established in the foreseeable future. Nevertheless, we feel it is worth raising as an aspirational objective in the context of the discussion on transparency, verification and additionality of green supply offerings and the avoidance of “triple-counting”.

In conclusion, we believe that possession of the requisite number of REGOs to match that electricity usage is a necessary, but insufficient, criterion for an offering to claim to be a green supply offering.

Links with fuel mix disclosure

EST agrees that if Ofgem does decide that REGOs become the agreed standard of evidence for green offerings that suppliers should ensure that their total amount of renewable energy sold under green supply arrangements does not exceed the amount of renewable generation claimed in the supplier’s fuel mix disclosure label.

Definition, measurement and standards for additionality (clause 3.34)

EST agrees that electricity supplier’s voluntary green offerings should not be used as a means of meeting the supplier’s costs in fulfilling their Renewables Obligation but rather that any green tariff should lead to additional benefits. Ironically though, for reasons discussed earlier, it may be easier to demonstrate additionality through environmental benefits unrelated to renewable energy supply (the third option in paragraph 2.7), as opposed to additional generation or expansion of renewable capacity. While this may appeal to some consumers, it is felt that most will be seeking green supply that primarily delivers benefits in terms of increased use of renewables, as consumers have a variety of other means of supporting different environmental initiatives at their disposal.

EST considers the retirement of ROCs is one means of providing evidence of additionality, even though it is unlikely that the retirement of ROCs would result in increased renewable generation from existing capacity in the short term. However, EST accepts the economic argument that retirement of the ROCs would increase their value and thus lead, indirectly, to increased investment in new capacity.

Otherwise, suppliers could demonstrate that green supply offerings deliver benefits above the legal requirements of the Renewables Obligation through ring fenced investment in microgeneration projects which do not claim ROCs.

EST does not consider there to be a role for suppliers to retire EU-ETS allowances to demonstrate additionality as they are not guaranteed to be renewable. Nor is there any linkage with green offerings.

Third-party accreditation (clause 3.39)

EST strongly supports the re-establishment of third party accreditation which would include the definition and setting of minimum standards, verification of additionality, auditing of claims, labeling, and promotion of green offerings. We would be pleased

to enter into discussions with energy suppliers, Ofgem and other interested parties, pending the outcome of this consultation, as to the nature of a possible accreditation scheme.

In view of the multiplicity of ways in which existing offerings claim additionality, we do not believe a “one size fits all” system is appropriate for this market. We believe it is entirely acceptable for some suppliers to be offering green supply, while others offer support for renewables in other ways eg through funds. We acknowledge the potential attractiveness of offering other environmental benefits alongside green supply.

Subject to sufficient demand from key stakeholders, EST would be willing, without prejudice⁴, to consider developing and running an accreditation scheme for green supply offerings along the following lines:

- Each participating supplier would submit details of how their scheme operates, in particular how it meets the additionality criteria;
- An independent panel would consider the merits of the offering and determine whether it meets the guidelines and is a credible green supply offering. This independent panel would include representatives from some or all of the following: Ofgem, Government, energywatch, EST and possibly other independent bodies;
- The supplier would be subject to regular review and assessment to verify compliance and, subject to satisfactory performance, would be eligible to use EST's accreditation brand;
- A formal reassessment of criteria would occur periodically (say every 2-3 years), to ensure that developments in the market are reflected in the scheme criteria;
- EST would actively promote the availability of accredited offerings through its network of activities, including the advice centre network⁵
- EST would encourage the participation of other bodies in the promotion of accredited green supply offerings.

EST believes that, with sufficient backing from energy suppliers and other stakeholders, such a scheme could become accepted as the industry standard for green supply.

If you require any further information or would like to discuss the EST response in further detail please do not hesitate to contact me on 020 7654 2427.

Yours sincerely

Dan Staniaszek
Director of Evaluation

⁴ Any decision on operation of an accreditation scheme would need to be authorised and approved by EST's Executive team and Board

⁵ On 8 December 2004, Defra confirmed £10 million for EST to the Sustainable Energy Network (SEN). The SEN is a new initiative providing consumers with a 'one stop shop' advice service for sustainable energy, covering both the home and transport. The SEN is a natural evolution of EST's existing Energy Efficiency Advice Centres (EEACs). In April 2005, the SEN launched with three pilot centres in Anglia, Northern Ireland and the North East.