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Dear John

Revision of Guidelines on Green Supply – Initial Consultation

RWE npower welcomes Ofgem's review of the current guidelines on green supply, and hope that we can take this opportunity to work with you in the production of a clear set of principles which can be adopted by all supply companies. We are supportive of the intent of the proposals however we have concerns about some of the detail put forward in the first consultation document. These are detailed below.

Basic Principles

Customers need to be able to make an informed choice when selecting a green tariff. The motivations behind a domestic consumer's choice will be very different to that of an I&C customer, as will the monetary value they attach to the environmental benefits.

To accommodate this there should be two key drivers for the guidelines, transparency and verification. It should be clear what the customer is receiving in terms of the technologies from which power is sourced and any associated renewable certificate. The consumer should also have confidence that these claims can be supported.

Once these two drivers have been established the additionality offered by comparable supply offerings forms the basis of product differentiation and consumer choice. We are firmly of the opinion that this should not be the subject of prescriptive regulation.

Green Certificates

The consultation refers to the use of ROCs, LECs and REGOs in the marketing green products. We agree that current practises by some suppliers offer the potential for double counting. Before establishing a single measure for all green supply, the attributes of each certificate must be appreciated.

ROCs - form the basis of a subsidy to incentivise increased generation from renewable sources. They are at present separable from the power and therefore can not currently be used as evidence of green supply.

Renewable LECs – are linked to power and therefore permit verification. Furthermore under section 6 of the Finance Act 2000 and the subsequent CCL

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statutory instrument (SI 2001/838), the LEC is described as the determining piece of evidence that power has been sourced from renewable sources.

REGOs – the definition of REGO eligible power is wider than that for ROCs or LECs. Therefore it appears reasonable for Ofgem argue that this represents the most appropriate single label for green supply. However, the REGO legislation is “intentionally silent” on whether the REGO must be traded with the power. It is left to those adopting the REGO for use in a particular scheme to determine if the power and certificate used for that purpose are separable. DTI has issued a statement that as REGOs are to be used for fuel mix disclosure purposes it is desirable that they are traded with power. We believe that the same is true of green supply and would urge Ofgem to make a determination to that effect. Failure to do so will create a market value for REGOs thereby increasing costs to consumers and providing renewable generators with an unintentional windfall.

To prevent double counting and to ensure customers receive renewable power which can be verified by technology, we believe that REGOs represent the most appropriate form of certification, providing they are traded with the power or attached to the LEC. If Ofgem proposes that REGOs should be traded separately then the LECs should be used as the determining piece of evidence for green supply. The use of REGOs or LECs traded with power will align the green supply guidelines with the CCL legislative requirements.

To operate any system based upon separately tradable certificates would undermine the key principles of transparency and verification.

Additionality

The proposals contained within the consultation appear to be based upon a presumption that green supply products are subject to a price premium.

RWE Npower plc created npower Juice, a zero premium domestic product developed in conjunction with Greenpeace. This provides consumers with a tangible means of supporting renewable power, via an additional annual contribution made on behalf of each Juice customer to a fund which supports research into new renewable technologies. There are further additionalities in that the renewable power is sold to domestic consumers so LECs are retired, reducing the levy exempt power available to the commercial market, thereby increasing the demand for renewable generation. The product has also established a body of consumers who have demonstrated their support for the development of offshore wind, which has assisted in the planning consent process of new capacity.

The development of prescriptive regulation to establish additionality will prevent innovation of new products such as Juice and restrict customer choice to a homogenous set of products differentiated by price alone. Consumers should be allowed to determine the environmental benefit they seek and the value, if any, of any associated premium to be paid. A commitment to support the research and development of an emerging renewable energy technology, such as marine, maybe more comprehensible to some market sectors than the retirement of a ROC or EU ETS allowance. Both provide a tangible environmental benefit and should be equally valid providing that the product is transparent and the additionality verifiable.

Verification

If the guidelines are to have any credibility they must establish a clear set of deliverables which can be adopted by all suppliers. The verification process must therefore strike a balance between strong independent authentication and an administrative / cost burden which can be

accommodated by the smallest market players, many of whom specialise in green supply products.

Assuming REGOs attached to power are used as the basis of verification, Ofgem have already created a redemption log on the REGO Register. A low cost verification process could involve a voluntary requirement to complete this section of the Register and the submission of an annual summary statement to a third party body such as the Energy Savings Trust. The recipient body would reserve the right to audit these declarations as part of the accreditation process.

The consultation proposes the redemption of REGOs to verify a supplier's green supply position, averaged over the year. We believe that, as with LECs, the averaging should be over two years, to enable suppliers to balance their green sales volumes with contracted renewable generation, the output from which can be subject to extreme variations.

Verification of claims made within advertising and promotional material is already subject to scrutiny via the Advertising Standards Authority. Current legislation imposes a duty on suppliers to ensure that representations are truthful and can be substantiated. Therefore no additional regulation is required.

Non Domestic Customers

In general we do not support any proposals to expand regulatory activities in the business market; however a robust set of guidelines outlining the methodologies for transparency and verification could establish best practice protocol to be applied in this sector.

The business markets are subject to an increasingly refined segmentation that goes beyond a simple I&C/SME split. Over time we are likely to see requirements for more than one form of 'green product'. Many business customers seek CCL exemption in the form of LECs rather than a green proposition per se. However there are a significant number of business customers who do not pay CCL, for whom LECs are not relevant but other forms of additionality may be desirable. These are sophisticated financially aware consumers who seek a bespoke product, based upon a price negotiation in a competitive market. The guidelines should not be allowed to restrict this market.

Summary

We believe that transparency is the paramount driver for all green supply products and that all claims made in relation to these products should be verifiable. For domestic products this should be achieved via a formalised process, such as the redemption of REGOs linked to the power, and overseen by a third party accreditation body. However extending this requirement to the business market would not be helpful as it could restrict the tailoring specific products to meet individual needs. Verification in this market should be based upon individual agreement between consumers and their supplier. Finally additionality should not be prescriptive as this will inhibit innovation and restrict customer choice.

We would welcome the opportunity to work with you to develop these ideas further into a clear set of guidelines which are of benefit to consumers and suppliers alike.

Yours Sincerely

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