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- Revision of Guidelines on Green Supply Offerings - Consultation Document
- Fuel Mix Disclosure by Suppliers in Great Britain – Draft Guidelines

Place/date: Amstelveen, June 25<sup>th</sup> 2005

Dear Mr. Costyn,

Before reacting to the above-mentioned documents, I would like to introduce my company and our commitment to renewable energy.

Statkraft Markets GmbH is a 100% daughter company of Statkraft SF, the third largest power producer in the Nordic region and the second largest European producer of electricity based on renewable energy sources. Statkraft aims to be a European leader in environment-friendly energy. Backed by over a century of knowledge and investment, the group is well situated for further growth and development, and it is dedicated to creating lasting value. We contribute to sustainable development financially, environmentally and socially. Average annual generation is about 41 TWh of electricity, which is for the largest part based on hydropower and for a minor but gradually increasing part on wind power.

Statkraft Markets GmbH is the company's trading arm for the continent. Statkraft Markets GmbH has allocated, amongst others, its renewable power activities to its Dutch subsidiary Statkraft Markets B.V. One of our renewable trading activities focuses on the UK, where we have been active towards the LECS-regime.

Our mother company Statkraft SF is active towards the UK with regard to investments in new wind farms and is now a shareholder in two British companies whose aim is to construct and operate wind farms in Scotland and Wales.

It is in this context that we have read mentioned documents and prepared our comments on it.

#### **Draft Guidelines on Fuel Mix Disclosure by Suppliers in Great Britain**

As to the Draft Guidelines on Fuel Mix Disclosure by Suppliers in Great Britain, Statkraft welcomes the fact that until July 2006 the Generator Declaration can be used to prove the green supply. What we are concerned with is what will happen after the above-mentioned period. Statkraft currently has no possibility to create Guarantees of Origin (GoO's) for its production, as the Norwegian government has not yet formally implemented the EU RES-directive. Also other countries are not as far as the UK in implementing the RES Directive. It is in this respect that we think it fair to only implement new rules obliging a GoO / REGO to prove renewable supply on a longer term e.g. by mid 2007 for the compliance period 1 April 2006 – 31 March 2007. For this in-between period we would advise to continue accepting Generator Declarations.

We would be advising against the acceptance of other certificates, e.g. RECS certificates. This could lead to a flood of RECS certificates to the UK, leading to extensive administration and not contributing at all to

the principle of additionality.

As to the use of non-UK REGO's (3.12) we comment that we do not see the need for the REGO to be supported by evidence that the electricity referred to in the REGO was supplied in Great Britain. The international introduction of Guarantees of Origin is meant to enable and facilitate the separate trading of power and the green value. Linking them again by this rule 3.12 is a major step back for the international trade of green value and certificates.

The same comment applies to the use of generator declarations (3.10), whereas Ofgem mentions that evidence must be held showing that the electricity referred to in the generator declaration was supplied in Great Britain. Having stated that splitting the green value from the power value is a matter of principle for us, we would like to add that it will be very hard to check 3.10, should you keep this supply-obligation in the guidelines. For the LECs Statkraft has received, we are currently undergoing a series of audits. The first audit was performed in March 2004 and Ofgem is still discussing internally whether we have proven sufficiently that the power for which we have claimed LECS was to be consumed in the UK. As long as the rules describing the requirements on what to document for LECS sourced from outside the UK are not clear, we recommend not to refer to these rules for another type of evidence.

Relating the issue of 'requiring physical transport along with the certificate' to the instalment of funds to ensure additionality (as in the Guidelines on Green Supply Offerings) we remark as follows: the physical transport of energy requires market parties to buy transport capacity. This leads to grid operators receiving income, which is ultimately to be paid out of the premium, the extra price that consumers pay for a green supply product. This strengthens us in having a negative opinion on the requirement of the electricity referred to in the REGO being supplied in Great Britain.

#### **Revision of Guidelines on Green Supply Offerings - Consultation Document**

We have combined our comments on those parts of the document where you request views, with the additional comments we have on other parts of the text.

- 3.13 Being an importer of renewable energy into the UK and a seller of LECs, we can imagine that it is currently possible that more purchases of renewable energy are announced than the UK-output.
- 3.15 Statkraft supports the avoidance of any possibility of double counting. We support the proposal of
- 3.18 backing CCL-exempt energy by REGO's. We assume that, as in 2.5, it is also accepted to use generator declarations to prove renewable production outside Great Britain. We request Ofgem to be firmer on that in 3.18. As to the use of REGO's and generator declarations we do see some short-term problems, which we have detailed above under 'Draft Guidelines'.
- 3.16 We see no reason to differentiate between the treatment of renewable supply between domestic and non-domestic customers.
- 3.23 We think it necessary that all countries including the UK use a standard type of certificate to prove the supply of renewable energy. We think that the Guarantee of Origin (GoO), in the UK called the REGO, is the correct instrument for this. We realise that until July 2006 we can use the generator declaration for foreign production to prove the green supply but we are concerned what will happen after that, as described above.

In this respect we need to raise the issue that in various countries redeemed GoO's are not only seen as a means to prove green supply but also as a check as to whether that country is reaching it's national indicative target as set in the EU RES-Directive. Export and import of GoO's from one national system into the other country's system should be agreed upon bilaterally between the countries. Also here the possibilities of double counting should be avoided.

We realise this is a very complex issue being raised along the discussion on the disclosure of green supply, however companies like us need to stress to the different governments that we need these governments to discuss these issues and to agree on exchange rules. Only then the international trade of GoO's will take off and GoO's will benefit from the international attention.

3.34 In general, we do not think positive about the use of funds to ensure additionality. The sales of green supply by itself already leads to a strengthened position of renewable energy producers. Producers such as us are constantly looking for renewable investment opportunities. The instalment of funds, their related administration and the necessary follow-up by auditing procedures will lead to a very bureaucratic and costly process without adding much to e.g. Statkraft's current willingness to re-invest.

Furthermore small producers, which we represent, are not in the position to yearly re-invest in new generation production. Re-investments are made only on a larger interval basis.

Should a fund have to be installed we prefer, as you mention, the supplier of the energy to keep and maintain the fund. We note however that Ofgem should not expect the full premium of the green supply offering to be paid into a fund. As there are many commercial parties in the production – sales chain, all of them should get their share of the additional marketing value of green energy; else the green supply offering cannot be made available. We therefore suggest that Ofgem requires around 50% of the premium to be put into a fund.

We furthermore like to react on the possible role of EU-ETS allowances in the disclosure system. We think that the ETS have a different goal than the GoO's and should therefore not be mixed with the suggested disclosure system.

3.39 In our opinion claims from suppliers on their energy disclosure should be verified on a predefined basis. This will add to customer trust and credit-worthiness of the system. Due to us being relatively inexperienced with UK audit companies, we have no opinion as to whom should carry out such audits. We know that under Ofgem's supervision the LECS audits are being performed, by audit companies of good standing. They might be used again for this purpose ? As to the funding mechanism, we would consider paying the auditor from the money put into the fund.

Even though we have only limited experience in certain UK-related topics, we hope that the ideas of a relative outsider are of interest to you. Should you have a need for further clarification, please do not hesitate to contact me.

Yours sincerely

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Business Development Manager  
Statkraft Markets B.V.