

Developing Guidelines for Green Supply



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Target audience: This document will be of interest to suppliers, customers, accreditation service providers, environmental bodies and agencies, and other interested parties

Overview:

In response to the global challenge of climate change, a number of electricity suppliers are offering 'green' tariffs to customers. These tariffs include a commitment that 100% of the energy supplied is from renewable sources or a commitment to offset carbon emissions from energy sources used. A recent study by the National Consumers' Council concluded that there is considerable customer confusion and, as a result, a level of customer mistrust in tariffs that are being marketed as green. In view of our primary duty to protect the interests of consumers and our duty to contribute to the achievement of sustainable development, we want to ensure that environmentally aware customers who want to take advantage of these tariffs can be confident about what they are buying. To facilitate this, we think it is appropriate to develop and revise our 2002 guidelines for suppliers in relation to green tariffs. In this document we propose that an independent accreditation scheme is developed, and welcome the consultation document that has been released by the Energy Saving Trust (with support from Defra) in parallel to our consultation. Our intention is to engage with stakeholders regarding these proposals over the next 8 to 12 weeks, with a view to publishing a final revised set of guidelines in September 2007.

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Context

Tackling climate change has become a global priority. At an EU level, member states have committed to setting both targets to reduce the overall level of green house gas emissions by 2020 and to increase the contribution of renewable energy. The energy sector has an important role to play in meeting these challenges as this sector accounts for approximately half¹ of green house gas emissions. Ofgem has an important role in contributing to sustainable development given our duties provided in the Energy Act 2004 and our primary objective to protect present and future customer interests through promoting competition where possible.

Associated Documents

- Guidelines on Green Supply Offerings, Consultation Document, December 2001
<http://www.ofgem.gov.uk/Sustainability/Environmnt/Policy/Documents1/136-19dec01.pdf>
- Guidelines on Green Supply Offerings, April 2002
http://www.ofgem.gov.uk/Sustainability/Environmnt/Policy/Documents1/2183-31green_supply_offerings_guidelines.pdf
- Green Supply Offerings, Summary of Responses, April 2002
http://www.ofgem.gov.uk/Sustainability/Environmnt/Policy/Documents1/2182-32green_supply_responses.pdf
- Revision of Guidelines on Green Supply Offerings, Consultation Document, March 2005
<http://www.ofgem.gov.uk/Sustainability/Environmnt/Policy/Documents1/10367-10905.pdf>

¹ The Stern Review on the economics of climate change 2006, available from:
http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/stern_review_report.cfm

Table of Contents

Summary	1
Way forward	2
1. Introduction	3
Background	3
2005 consultation	3
Responses to the 2005 consultation	4
Recent developments	5
Structure and approach	5
Associated consultation	5
Joint consultation between Ofgem and Energy Saving Trust (with support from Defra)	5
Way forward	6
2. Developing the guidelines - key issues	8
Key issues	8
The status of the guidelines	9
Should Ofgem publish new guidelines?	9
Ofgem's initial views	9
Should the guidelines be mandatory or voluntary?	10
Ofgem's initial views	10
The scope of the guidelines	11
Should the guidelines extend to tariffs for non-domestic customers?	11
Ofgem's initial views	11
Should the guidelines include green supply tariffs involving non-renewable low-carbon technologies?	11
Ofgem's initial views	12
The content of the guidelines	12
Transparency	13
Ofgem's initial views	13
Evidence of supply	15
Agreed standard of evidence and use of certificates	15
Ofgem's initial views	15
Links with fuel mix disclosure	16
Ofgem's initial views	17
Definition, measurement and standards for additionality	17
How standards should be set	17
Ofgem's initial views	18
Operation of funds	18
Ofgem's initial views	18
Views invited	19
3. Initial proposals - independent accreditation scheme	20
Background	20
Third party accreditation scheme	21
Star rating system	22
How the rating scheme would operate	22
Relationship with the revised guidelines	22
Application of the scheme	23
"At a glance" rating system	23

Initial criteria for assessing the star ratings	26
Administration of the scheme	28
Funding of the scheme	29
Way Forward.....	29
Appendices	31
Appendix 1 - Summary of Responses to 2005 Consultation	32
Appendix 2 - Draft Guidelines on Green Supply	38
Appendix 3 - Consultation Response and Questions	43
Appendix 4 – The Authority’s Powers and Duties	45
Appendix 5 - Glossary.....	47
Appendix 6 - Feedback Questionnaire	50

Summary

There are currently 11 supply companies that are offering green supply tariffs². These tariffs range from products that are designed to ensure that 100% of electricity used is from renewable sources to others where suppliers take actions to offset carbon emissions arising from the energy sources used.

Recent studies by energywatch and the National Consumers' Council (NCC) have highlighted that there is considerable customer confusion and mistrust regarding the benefits associated with some of these tariffs. The Advertising Standards Authority has also made rulings in respect of the advertising of green tariffs by a supplier which concluded that the claims made by that supplier could not be substantiated.

Green supply tariffs could be a useful tool in contributing to the development of renewable generation and in meeting our carbon emission targets. In view of Ofgem's duties to protect the interests of consumers and to contribute to the achievement of sustainable development, we want to ensure that environmentally aware consumers can be confident of the benefits associated with green tariffs. We are therefore consulting on developing and ultimately revising our 2002 guidelines for suppliers in relation to green tariffs.

Through our recent engagement with stakeholders and our past consultations we recognise that there are differences of opinions between suppliers and customers on what a green tariff is and on the usefulness of our guidelines. We consider it is important that we engage fully with all parties in attempting to move this important issue forward and are confident that through working in partnership with other interested parties including the Energy Saving Trust (with support from the Department for Environment, Food and Rural Affairs (Defra)), we will be able to develop guidelines for the industry in this important area that are suitable for the challenges over the coming years.

There are a number of key issues that we are keen to engage with stakeholders on regarding the guidelines. These include:

- **What should Ofgem's role be?** Due to our commitment to Better Regulation principles, we consider that ideally industry should develop its own self-regulatory guidelines. However, our initial view is that the significant differences in industry opinion will prevent meaningful guidelines emerging at this time. Therefore, it is our initial view that Ofgem, in full consultation with the industry and consumers, should publish revised guidelines which would have the potential to become self-regulating at a later date as the green energy supply market matures.

² Information correct at 1 June 2007 and based on information contained on the energywatch website which can be found at:

http://www.energywatch.org.uk/help_and_advice/green_tariffs/tariff_types.asp

- **Should the guidelines be mandatory or voluntary?** Although we consider the guidelines important, in view of Better Regulation considerations and the need to encourage innovation and competition we propose that these guidelines should be voluntary.
- **Should the guidelines be extended to cover non-renewable low carbon technologies?** Given the EU level commitment to both a low carbon economy and the promotion of renewable energy we consider the scope of the guidelines should include tariffs that offer low carbon sources of electricity supply to customers in addition to green renewable tariffs. This will raise some difficult questions particularly surrounding how nuclear energy should be treated. Our initial view is that suppliers should make it clear to customers if nuclear energy is part of their tariff and to identify costs associated with nuclear (particularly decommissioning costs). This will enable customers then to make an informed decision as to whether they want nuclear to be part of their tariff selection.
- **Should non-domestic customers be covered by the guidelines?** In addition to the questions surrounding the scope of technologies that should be covered by the guidelines there is also the question of which customers should be covered. Based on discussion with stakeholders and consideration of responses to our previous consultation our initial view is that both domestic customers and non-domestic customers should be protected by the guidelines. We think that the inclusion of non-domestic customers is important given the commitments that many large and small organisations are making to combating climate change.
- **Should there be an accreditation scheme?** Our initial view is that there should be an independent accreditation scheme for green or low carbon tariffs. Ofgem does not consider it should perform this role but will facilitate the discussions and debate in this area. As such, we welcome the consultation that the Energy Saving Trust has launched in parallel with our document today. In this document we set out our view on the key elements of a scheme in order to start the debate and discussion within the industry as well as with customers and other stakeholders.

Way forward

Following the publication of this document, Ofgem and the Energy Saving Trust will jointly host a seminar, as well as a series of workshops with relevant stakeholders and interested parties to discuss the way that both the guidelines and the accreditation system may be developed. We envisage that the consultation, as well as the seminar and series of workshops will allow interested parties to contribute their views to the debate and ensure appropriate and fair arrangements are developed.

Once views have been canvassed as part of this consultation process, and the scheme has been further developed, together with stakeholders, we intend to issue a revised set of guidelines on green supply tariffs in **September 2007**.

1. Introduction

➔ **Chapter Summary:** This chapter sets out a short background on how Ofgem's guidelines on green supply tariffs have evolved since they were first developed in 2002. It also explains the structure of this document and outlines our intended way forward.

Background

1.1. In April 2002 Ofgem issued a set of Guidelines on Green Supply Offerings in the domestic electricity market (the guidelines) to facilitate the provision of information to customers regarding green supply tariffs. The guidelines focussed on helping to ensure:

- Sufficient transparency of information regarding green supply tariffs and the technology specified under the contracts;
- That the electricity sold under these contracts was additional to the energy that suppliers are legally required to contract for; and
- That suppliers were able to verify their claims.

2005 consultation

1.2. As the market for green supply tariffs began to evolve quite rapidly a number of industry participants requested that we review the guidelines. In March 2005 we issued a consultation seeking the views of interested parties on a number of proposals to revise the guidelines.

1.3. This consultation actively sought views on a number of aspects of the original guidelines, including:

- The scope of the guidelines;
- Whether the guidelines should be extended to apply to green supply tariffs in the non-domestic market as well as the domestic market;
- The evidence that should be used to verify claims of green supply;
- Whether there was a rationale for linking verification of green supply tariffs with the fuel mix disclosure obligation;
- What the appropriate definition, measurement of and standard for additionality should be;
- Whether third party accreditation for green supply tariffs would be appropriate; and

- How the guidelines should be enforced.

Responses to the 2005 consultation

1.4. Twenty-five responses to the 2005 consultation were received. Twelve respondents commented specifically on the appropriateness of the guidelines remaining in force. Of these respondents, five were supportive of their use and the changes proposed, two provided qualified support and six had concerns about continued use of the guidelines given uncertainties about the role that they would play and the prevailing market conditions.

1.5. Table 1 below summarises the principal themes of the views raised by respondents to the 2005 consultation. As such, the table is not intended to provide a comprehensive overview of the responses received³.

Table 1: Summary of responses to the 2005 consultation

Issue	Respondents for	Respondents against
Voluntary status of the guidelines	5 noted that the guidelines and any accreditation should be voluntary and self regulated	
Extension to non domestic customers	5 noted that non-domestic sector is largest consumer of green supply tariffs and that guidelines should be extended to them	4 stated non-domestics did not need the protection of the guidelines. Other regulations such as Advertising Standards legislation would suffice.
Inclusion of low carbon technologies	2 outlined that low carbon technologies should be incorporated	Majority reference renewables specifically
Transparency	4 stated that this was important to reduce customer confusion	1 stated that no additional requirements were needed
Standard of evidence for verification	13 were supportive of an agreed standard of evidence for verification	
Link with Fuel Mix Disclosure (FMD)	5 supported proposal to create a link with FMD obligations	
Extending additionality criteria	12 noted the key issue was that suppliers informed consumers of the way additionality was provided	6 respondents had concerns regarding use of a prescriptive definition of additionality
Measurement for	8 supported measure of	9 were opposed to use of

³ A full version of non-confidential responses to the 2005 consultation can be found on Ofgem's Website at: <http://www.ofgem.gov.uk>. A fuller summary of responses to the 2005 consultation can also be found at Appendix 1

additionality	retirement of ROCS, 5 supported inclusion of retiring EU ETS allowances	retirement of ROCS as a measure of additionality
Third party verification	24 were in favour of establishment of third party accreditation	

Recent developments

1.6. A recent study by the National Consumers' Council (NCC)⁴ has highlighted that there is considerable customer confusion and mistrust regarding the benefits associated with some of these tariffs. The Advertising Standards Authority has also made rulings in respect of the advertising of green tariffs by a supplier which concluded that the claims made by that supplier could not be substantiated⁵.

Structure and approach

1.7. Chapter 2 of this document:

- Outlines some of the key issues associated with revision of the guidelines;
- Provides details of our current thinking with respect to the changes to the guidelines that were proposed as part of the 2005 consultation; and
- Invites the views of interested parties on these proposals.

1.8. Chapter 3 explores the need for an accreditation scheme for green supply tariffs and outlines our initial views as to what any such accreditation scheme should look like. The draft revised guidelines are set out as Appendix 2.

Associated consultation

Joint consultation between Ofgem and Energy Saving Trust (with support from Defra)

1.9. The Energy Saving Trust (with support from the Department for Environment, Food and Rural Affairs (Defra)), is also carrying out work to look at the feasibility and desirability of operating a third party accreditation scheme for green supply tariffs.

⁴ Reality or rhetoric? Green tariffs for domestic customers by Virginia Graham. National Consumers Council. December 2006. Available from

<http://www.ncc.org.uk/responsibleconsumption/green-tariffs.pdf>

⁵ ASA Adjudication. Scottish & Southern Energy Group t/a Scottish Hydro Electric. 11 October 2006. http://www.asa.org.uk/asa/adjudications/Public/TF_ADJ_41817.htm

In order to ensure that the consultations develop a consistent approach, we have agreed with the Energy Saving Trust to run a joint consultation process. An announcement was made to this effect as part of the Energy White Paper, published on 23 May⁶, which stated that "in particular, the Government is committed to working with Ofgem and the Energy Saving Trust ...to ensure consumers have accessible, transparent and user friendly information on the "green electricity" tariffs available to them". To facilitate this, the consultation papers have been published on the same day and we will be jointly hosting seminars and working group meetings during which the guidelines and the accreditation scheme will be developed. We hope that these parallel consultations will develop revised guidelines that meet the needs of consumers and suppliers in a clear and simple way as well as developing an effective accreditation scheme for green supply tariffs.

Way forward

1.10. We would welcome the views of interested parties regarding all aspects of this consultation document. As Ofgem is carrying out this consultation in parallel with the Energy Saving Trust it would help if responses were sent to both Ofgem and the Energy Saving Trust. Responses should be sent to ES&SMarkets@ofgem.gov.uk and victoria.willis@est.org.uk to be received no later than **16 July 2007**. Details of how to respond can be found in Appendix 3. Following the publication of this document, Ofgem and the Energy Saving Trust will jointly host a seminar, on **11 June**, for all interested parties. The intent of this seminar will be to:

- Provide stakeholders with further information regarding the proposed way forward with respect to the Green supply guidelines;
- Outline the way in which Ofgem and the Energy Saving Trust envisage that a system of accreditation for green supply tariffs may work in practice; and
- Explain in more detail the way that the parallel consultation between Ofgem and Energy Saving Trust will operate.

1.11. Following this seminar, we also intend to hold a series of workshops with relevant stakeholders, jointly chaired by Ofgem and Energy Saving Trust, to discuss in further detail the way in which any system of accreditation for green supply tariffs may be developed and the criteria that would be used to accredit competing tariffs. The workshops are scheduled to be held on **26 June** and **9 July**. We envisage that these workshops will allow consultation with affected parties to take place and therefore enable a fair and reflective system of accreditation to be developed. The series of seminars and workshops are free for stakeholders to attend. If you would be interested in attending any of these events, please register by sending an email to

⁶ "Meeting the Energy Challenge: A White Paper on Energy" (May 2007) HM Government (Department of Trade and Industry).
<http://www.dti.gov.uk/files/file39387.pdf>

ES&SMarkets@ofgem.gov.uk. We would note that places at these events are limited so please register early if you are keen to attend.

1.12. Once the process of consultation is complete, through both the consultation document and the series of workshops, we intend to issue a revised set of guidelines regarding green supply tariffs in **September 2007** with a view to getting parties signed up to the guidelines by the end of the month. We envisage that the accreditation scheme would be put in place as soon as possible after the revision of the guidelines.

2. Developing the guidelines - key issues

➔ **Chapter Summary:** This chapter sets out some key issues that need to be addressed when revising the guidelines. These issues relate to the status, scope and content of the guidelines. The chapter also provides our initial views in respect of each of these issues having considered the responses to the 2005 consultation as well as the changes impacting on the market for green supply tariffs since our last consultation.

Question Box:

Question 1: What should Ofgem's role be in terms of providing guidance on green supply tariffs?

Question 2: Should the guidelines be mandatory or voluntary?

Question 3: Should tariffs to non-domestic customers be covered by the guidelines?

Question 4: Should tariffs involving non-renewable non or low-carbon technologies (including Good Quality CHP, clean coal and possibly nuclear) be included within the guidelines?

Question 5: Should suppliers include additional information on customers' bills to support the achievement of transparency?

Question 6: Should an agreed standard of evidence be defined and, if so, what should this be?

Question 7: Is it appropriate for requirements relating to evidence of supply to follow the same requirements as that required for evidence of supply for the fuel mix disclosure?

Question 8: Is Renewable Obligation Certificate (ROC) retirement an appropriate indicator of additionality?

Question 9: Do you agree that there should be clear rules covering the use of funds for transparency and verification and, if so, what should the criteria for this include?

Key issues

2.1. In light of feedback received following our last consultation, as well as the evolving market and growing customer awareness surrounding green supply tariffs, we consider that there are a number of key issues that need to be taken into account in revising the guidelines. This chapter considers the following issues in turn:

- The status of the guidelines;
 - Whether Ofgem should publish revised guidelines;
 - Whether the guidelines should be mandatory or voluntary;
- The scope of the guidelines;

- Whether the guidelines should apply to tariffs made available to non-domestic customers;
 - Whether the guidelines should be extended to non-renewable low or no carbon technologies (such as Good Quality CHP); and
- The content of the guidelines, including requirements for transparency, evidence of supply and additionality.

The status of the guidelines

Should Ofgem publish new guidelines?

2.2. Respondents to the 2005 consultation had mixed views regarding whether Ofgem should publish revised guidelines regarding green supply tariffs. While some respondents considered that the publication of these guidelines would assist customers in making more informed choices regarding green supply tariffs, others were concerned that if the revised guidelines were too prescriptive, innovation in this area may be reduced which would in turn limit customer choice. As such, there was a question as to whether, in the interests of Better Regulation, Ofgem should withdraw from publishing guidelines and instead leave the industry to develop its own self-regulating guidelines.

Ofgem's initial views

2.3. We note that a key study undertaken by the NCC has indicated that there is still considerable customer confusion regarding green supply tariffs. Ofgem has a duty to protect both present and future customers and we see the growth of green supply tariffs being an important step in enabling the energy industry to help to meet the government's forward looking renewable energy and carbon reduction commitments. We have concerns that confusion regarding green supply tariffs may be preventing some customers from signing up to these tariffs, therefore preventing the full value of these contracts (in environmental terms) from being realised. We therefore see it as essential that measures are introduced to promote customer confidence in such tariffs and to enable useful evaluation and comparison between products.

2.4. Although we can see advantages from the industry developing and managing their own guidelines without the involvement of Ofgem, we consider that the difference of opinion between industry players as to the content of the guidelines would mean that this was difficult to achieve in a timely manner. Given our duties to not only protect customer interests but in so doing to have regard to social and environmental issues, we think that it is appropriate for us to assist industry in developing a revised set of guidelines at this stage. However, it would be our preference for the guidelines to become self-regulatory over a period of time and for the industry to enable the guidelines to evolve more flexibly in response to new types of tariffs being made available. We consider that this transition should be able to take place following the establishment of the proposed accreditation scheme.

2.5. To ensure that the guidelines developed are workable, as flexible as possible (so as not to limit innovation in this area), and offer greater transparency and consumer protection we intend actively to engage with the industry, consumers and other interested stakeholders during this consultation phase. Our intention is for the guidelines to provide real benefits to customers and, through developing the proposals together with stakeholders, we anticipate that suppliers will be able to commit to these guidelines.

Should the guidelines be mandatory or voluntary?

2.6. The current guidelines are available for information only - that is, suppliers are not obliged by any licence requirements to comply with the guidelines, nor is there a mechanism by which suppliers can sign up to the guidelines. Instead, the guidelines are intended to define best practice for the marketing of green supply tariffs which may assist in compliance with the relevant codes on standards for advertising. As such, the role of ensuring compliance with the statements made by suppliers in promoting their green supply tariffs rests with the Advertising Standards Agency (ASA) (as well as other bodies)⁷.

Ofgem's initial views

2.7. We have considered whether it remains appropriate for the guidelines to be voluntary. While we recognise some parties felt there would be greater certainty if a mandatory licence obligation was introduced upon suppliers either to sign up to or comply with the guidelines, we consider that to introduce such requirements would be unduly onerous and it would be better for the guidelines to be self-regulated through an accreditation scheme. The guidelines will continue to assist the ASA in their role in ensuring compliance with the relevant advertising codes.

2.8. We think it is appropriate for information to be clear to customers regarding which suppliers are committed to following the guidelines and which are not. We therefore would like to invite suppliers to voluntarily sign up to the proposed revised guidelines. This would enable clear information to be made available to customers and interested stakeholders regarding the suppliers that are committed to the guidelines. We would have a role, together with other interested stakeholders, in ensuring that the existence of the guidelines and details of the suppliers signed up to them was well publicised. However, we would envisage that over time this role could be managed by industry itself.

⁷ The other bodies include The Broadcast Advertising Clearance Centre, The Radio Advertising Clearance Centre, The European Advertising Standards Alliance and The CAP Copy Advice team.

The scope of the guidelines

Should the guidelines extend to tariffs for non-domestic customers?

2.9. The original guidelines we developed specifically excluded the non-domestic sector as it was considered that the issues were likely to be different for tariffs made available to the non-domestic sector as compared with those made available to the domestic sector. This was partly due to the tax advantages (through the Climate Change Levy (CCL) exemption process) that were applicable in respect of some tariffs in the non-domestic sector.

2.10. In our last consultation we sought views on the potential to extend the guidelines to include tariffs made available to non-domestic customers. We considered that such extension of the scheme might be appropriate as the non-domestic sector was, and continues to be, the biggest market for green supply. Although some respondents (including large customers) supported this proposal, as they considered that there was confusion surrounding tariffs in the non-domestic sector as well as the domestic sector, others questioned the value of extending the guidelines beyond the domestic sector. They considered that the non-domestic sector were more aware of the issues surrounding green supply and could more easily negotiate the contracts. As such some respondents considered that the extension of the guidelines would mean greater risk of stemming innovation in this area of the supply market.

Ofgem's initial views

2.11. We have carefully considered the wide range of views expressed in regard to the scope of the guidelines. We believe it is important that suppliers are able to innovate in offering green supply tariffs and to enter into varied contracts with customers. We realise that with large non-domestic customers this can happen on a contract by contract basis.

2.12. The non-domestic sector has an important role to play in combating climate change and in the past few years we have seen a large number of organisations making commitments in this area. We are therefore of the view that the guidelines should extend to the non-domestic sector. It is important that the guidelines are developed in such a way that innovation in tariffs is promoted for both the domestic and non-domestic sectors. We will consider this issue together with stakeholders in our working groups, and seek views, particularly from customers and suppliers operating in the non-domestic sectors, on how they should best be catered for within the revised guidelines.

Should the guidelines include green supply tariffs involving non-renewable low-carbon technologies?

2.13. The original guidelines defined green supply tariffs as those tariffs that specify renewable supply without discussing the potential for inclusion of other low-carbon

technologies, such as Good Quality CHP, clean coal gas and possibly nuclear. Given the increasing public and government policy interest in respect of reducing carbon emissions in addition to supporting the growth of renewable technologies, we think it is appropriate to consider whether the guidelines should be extended to include all low carbon tariffs which may include a range of different technologies.

2.14. Although this proposal was not specifically put forward as part of our last consultation on green supply tariffs, a few respondents put forward their views that the ability of low carbon technologies to assist carbon reduction should be recognised.

Ofgem's initial views

2.15. We recognise that there is a wide range of views among customers and industry stakeholders as to what should be considered as 'green' supply. Some parties for example consider that to be 'green' supplies have to be from renewable sources, whereas others consider that as long as the supplies are contributing to the low carbon agenda, then other technologies (such as Good Quality CHP, 'clean' coal or nuclear) should also be recognised.

2.16. We think it is important that customers should be able to make their own informed choices between the range of low carbon and renewable technologies available as competing tariffs. We think that it is important to test what customers understand green supply to mean and potentially to develop two alternative measures (one for renewable technologies and one for all low carbon technologies) to enable customers to make informed choices. As such, we are of the initial view that generation types such as Good Quality CHP, clean coal, gas and nuclear could be included in a low carbon tariff.

2.17. We consider that if customers are given information in an easily understandable and user friendly way this will enable them to make an informed decision regarding the most appropriate tariff to reflect their personal or commercial preferences. We propose that if low-carbon technologies were to be included, especially the possible inclusion of nuclear, there would be an increased need for the existence of a third party administered accreditation scheme which allows for an objective and qualified differentiation in rating between tariffs.

The content of the guidelines

2.18. Our last consultation put forward proposals to amend the content of the original guidelines, in light of the evolving nature of this market. Having considered feedback received and in light of the increased public and government focus on the effects of climate change and environmental issues more widely, we have updated our earlier proposals. This section outlines our revised proposals with respect to the content of the guidelines and specifically focuses upon:

- Transparency;

- Evidence of supply; and
- Definition, measurement and standards of additionality.

2.19. A revised copy of the guidelines, reflecting the proposals outlined in this section are contained within Appendix 2.

Transparency

2.20. The draft guidelines we consulted on in 2005 specified that marketing and promotional material for green supply tariffs should be based on correct, up-to-date and specific information as well as ensuring the use of images or symbols were reflective of the product being offered. The guidelines also required that claims of supply from renewable generation should be based on the same requirements as the fuel mix disclosure supply licence condition. Further, the guidelines required that suppliers must inform prospective customers of the specific technologies for generation that are relevant to a particular green supply tariff. All respondents to the consultation agreed that transparency was an important feature of the guidelines although views were mixed about whether the revised guidelines were sufficiently clear on this point.

Ofgem's initial views

2.21. Ofgem continues to consider that transparency is a key element of the guidelines. This view has been strengthened by recent reports such as those carried out by energywatch and the National Consumers' Council (NCC) which have indicated that customers find this area very difficult to understand. In view of this confusion, energywatch attempted to produce a short leaflet to provide clarity to customers regarding green supply tariffs but due to the complexities involved this ran to several pages, thereby illustrating the difficulty⁸. The NCC proposed the inclusion of a number of additional requirements relating to transparency including:

- Requirement to make consumers aware that they are already supporting increased renewable electricity through their electricity bills;
- Suppliers should publish fuel mix disclosure charts for each of their green tariffs within the context of their overall fuel mix; and
- Suppliers should calculate the reduction in carbon emissions for an average household for each green tariff offered.

⁸ A copy of energywatch's leaflet entitled "Going Green" can be viewed at: http://www.energywatch.org.uk/uploads/Going_Green.pdf

2.22. We welcome the ongoing input from the NCC and energywatch into this area. There is clearly a balance to be struck in providing useful and clear information to customers and avoiding 'information overload' given the complex nature of the products. Our initial view is that it is important for customers to have access to information "at a glance" to enable them better to understand and therefore easily compare competing green supply tariffs. Information provided in this way would assist customers in making a more informed choice between competing contracts on the basis of objective criteria and reduce confusion associated with the sheer volume of information available.

2.23. Following consideration of the recommendations included in the NCC report as well as the responses to the 2005 consultation, we propose that it may be appropriate for the revised guidelines to recommend the inclusion of further information on consumer bills, or alternatively on the suppliers website, with respect to the fuel mix that the supplier utilises. Potential information that could be provided through either of these means includes:

- An indication of the percentage of the individual consumers bill that is used to fund renewable generation (for standard tariffs as well as green supply tariffs);
- For any 'green' tariff, a calculation of the percentage of carbon being saved against the suppliers' standard fuel mix; and
- Where carbon offset is being used, an indication of the percentage of the consumer's carbon emissions that are being offset through the scheme.

2.24. In addition, we consider that it may be appropriate for suppliers to publish on their website, fuel mix disclosure charts for each of their green tariffs within the context of their overall fuel mix. The proposals outlined above could potentially provide increased clarity regarding the existence of these tariffs to customers. However, we recognise the need to strike a balance between providing relevant information to consumers and ensuring that compliance with the guidelines is not unduly onerous for suppliers. As such, we would welcome feedback from customers, suppliers and interested stakeholders in respect of the value of this information being made available on customer bills as well as any potential problems that may be encountered by suppliers through the inclusion of this information.

2.25. More widely, we recognise that there is a range of potential information that could usefully be made available to customers and therefore we will be seeking the views of interested parties on this. We will also be welcoming views regarding what (if any) additional information should be made available in respect of green supply tariffs targeted at the non-domestic sector. However, as noted earlier, we recognise that there is clearly a balance to be struck in providing increased clarity to customers regarding green tariffs and giving too much information that could serve to over-complicate customer bills. We intend to discuss this issue in more detail with stakeholders at the planned working group meetings.

Evidence of supply

Agreed standard of evidence and use of certificates

2.26. The original guidelines suggested that only supply that is demonstrably additional to the Renewables Obligation (RO) should be considered as green supply. That is, suppliers should not be able to market their tariffs as 'green' unless they were undertaking measures to support increased renewable development or other environmental funds for example, that went further than their existing legal obligations under the RO.

2.27. Responses to our last consultation suggested that suppliers and customers may benefit from a standardised, industry-wide method of verifying supply of all renewable energy (that is energy covered by the holding of Renewable Energy Guarantee of Origin certificates (REGOs), Renewable Obligation Certificates (ROCs), CCL Levy Exemption Certificates (LECs)⁹, or through evidence from supply contracts). The intention of extending the coverage of the guidelines was to reduce the risk of double counting where the same unit of electricity could be sold by different suppliers, or by a single supplier to different customers, based on the different pieces of evidence that may be held. In the revised guidelines, we proposed that the most appropriate evidence for tracking renewable electricity supply to customers of green tariffs would be through holding an equivalent number of REGOs for that financial year, consistent with the rules of the fuel mix disclosure supply licence condition.

2.28. Most respondents identified compliance with an agreed standard of evidence of supply as the minimum requirement for green supply and agreed that REGOs were the appropriate basis for this evidence, where REGOs were available for the generation used. However, some respondents pointed out that REGOs were not available for all renewable generation (i.e. large hydro) or for renewable generation sourced from outside GB).

Ofgem's initial views

2.29. The potential for different pieces of evidence to be used (e.g. REGOs, ROCs, contract trails etc) to verify that electricity is generated from renewable sources means that the same unit of electricity may be claimed to certify 'greenness' by different suppliers or by a single supplier to different customers. A standardised approach would therefore assist in preventing 'multiple selling', and would provide greater clarity and confidence regarding these tariffs to the market.

2.30. Having considered feedback received, and suggestions made in other relevant reports, we consider that it may be appropriate for the evidence used to verify

⁹ Definitions of REGOs, ROCs and CCL LECs are included in the glossary in Appendix 5.

supply to follow the requirements of the fuel mix disclosure licence condition. If this approach were adopted, suppliers would prove supply through:

- In the case of renewable, a REGO relating to the generation in the disclosure period, a generator declaration relating to that period indicating a renewable energy source; or
- In the case of coal, natural gas, nuclear or other, a generator declaration relating to that period indicating the particular energy source; or
- In the case of electricity obtained via an electricity exchange or imported from an undertaking outside the European Community, where aggregate figures are provided by the electricity exchange or undertaking, such of those figures as identify the amount of electricity produced from a particular source.

2.31. The fuel mix disclosure guidelines set out that suppliers are free to further sub-divide each of the categories outlined above to identify the contribution of a specific technology or renewable source, for example, within the renewables category suppliers may wish to specifically identify the contribution of wind generation. Linked to this, we consider that where under their green supply tariffs suppliers claim to use specific forms of generation it would seem appropriate that the supplier should provide information under their fuel mix disclosure obligations identifying the contribution of this generation source to their overall supply mix. This would make it clear whether the supplier was being consistent in terms of the marketing of the green supply tariff and the actual fuel mix that comprised their sources of supply.

2.32. This approach would facilitate the inclusion of low-carbon non-renewable technologies. However, as noted earlier, we recognise that there is clearly a balance to be struck in providing increased clarity to customers regarding green tariffs and giving too much information that could serve to over-complicate customer bills. We intend to discuss this issue in more detail with stakeholders at the planned working group meetings but would also welcome the views of other interested parties, regarding this proposed approach, in responding to this consultation.

Links with fuel mix disclosure

2.33. In our last consultation, we proposed that suppliers should retain evidence to verify that the total amount of generation sold under green supply tariffs does not exceed renewable generation claimed under the fuel mix disclosure obligation.

2.34. The majority of respondents to that consultation were in support of this proposal, believing that it would facilitate the avoidance of double counting which may occur if LECs and REGOs were both used, due to differing accounting periods. In addition, many respondents had double selling concerns if both LECs and REGOs were used, as a supplier could sell electricity evidenced by a LEC under the CCL and use a REGO linked to the same generation to support a domestic green supply tariff.

Ofgem's initial views

2.35. We therefore propose that consistent with our proposals for evidence of supply, suppliers should retain evidence to verify that the total amount of generation sold under green supply tariffs does not exceed renewable generation claimed under the fuel mix disclosure obligation. As such, we consider it appropriate that suppliers retain evidence of supply for the various sources of generation, consistent with that required under the fuel mix disclosure obligation (as outlined in paragraph 2.30 above). This will not only ensure consistency of accounting with respect to both the fuel mix disclosure obligations but also simplify existing arrangements that incorporate the use of REGOs, ROCs and LECs. However, we realise that due to potential differences in reconciliation periods for the different certificates of origin, suppliers may choose to use evidence from two accounting periods for the fuel mix disclosure to fulfil this obligation but consider that the potential for this would be reduced as compared with existing arrangements.

2.36. We would welcome the views of interested parties with respect to our proposal to link the guidance regarding evidence of supply to the current obligations upon suppliers with respect to the fuel mix disclosure. We also intend to discuss these issues in greater detail through the seminar and series of workshops that will be held.

Definition, measurement and standards for additionality

How standards should be set

2.37. In our last consultation we indicated that there was a need to determine appropriate ways to measure and verify additionality. The guidelines noted that there may also be a need for minimum standards for additionality to be agreed. Third party accreditation was seen as a possible solution to assist with the development of these standards. Most respondents to the 2005 consultation stressed the importance of additionality but recognised that it is a complex issue that requires clear and simple definitions.

2.38. The 2005 consultation also looked at whether the retirement of ROCs could provide a possible option for verifying additionality¹⁰. While some respondents considered that ROC retirement could provide a valid approach to demonstrate additionality, others were strongly opposed to this as they considered that it would not provide any incentive to invest in additional renewable generation.

¹⁰ For further information regarding the way that these arrangements would work please see the 2005 consultation.

Ofgem's initial views

2.39. The guidelines recognise that there is considerable diversity in the way green supply tariffs claim additionality and that suppliers should show innovation in the tariffs they make available. We do not propose therefore that the guidelines should limit the forms of additionality. However, we suggest that it may be appropriate for the guidelines to include some examples of additionality.

2.40. A number of respondents considered that supply of electricity from renewable sources does not in itself represent additionality as this is likely to be part of the supplier's legal obligation under the RO. We agree that customers should be able to differentiate between tariffs where suppliers are undertaking measures that go beyond their legal obligations under the RO and tariffs that may have 'green' benefits but are not demonstrating any further additionality. We are keen to develop an appropriate mechanism to achieve this and would welcome the views of interested parties on this issue.

2.41. With respect to the retirement of ROCs, it is our initial view that there is a strong economic argument supporting the concept that the retirement of ROCs must increase the value of the buy out fund and hence the value of renewable energy to suppliers, in turn increasing signals to invest in renewable technologies. To date only two suppliers have retired ROCs, and the number of ROCs retired have been very small. It has therefore not been possible to carry out meaningful analysis on this issue at this time. However, we would welcome views from interested stakeholders on whether it is appropriate to use the retirement of ROCs as proof of additionality and that such measures should be considered when developing objective and measurable criteria for the accreditation scheme. We intend to discuss this issue in more detail with stakeholders at the planned working group meetings.

Operation of funds

2.42. In our last consultation we proposed that any premiums achieved through the sale of green supply tariffs should be paid into a fund that is verifiably separate from the general accounts of the supplier. In addition, this fund account should be independently audited. Most respondents to the consultation were supportive of this proposal.

Ofgem's initial views

2.43. We continue to be of the view that there should be clear rules covering the use of funds for transparency and verification, with criteria published for payments in and out to ensure there is consistency. We welcome the views of interested stakeholders on how best to define such criteria as part of this consultation process.

Views invited

2.44. Although we recognise that responses were invited, and received, on some of these questions as part of our earlier consultation on green supply tariffs, we consider that given the nature of the changes in this market since that time it is appropriate to seek views from interested stakeholders once again. These points will also be considered within the context of the working group discussions over the next two months. Where parties are unable to attend any of the upcoming open work group sessions but would still like to feed their views into this process, we also welcome written responses to this consultation. Details of how to respond to this consultation are contained in paragraphs 1.10 to 1.12.

3. Initial proposals - independent accreditation scheme

➔ **Chapter Summary:** This chapter provides details of our proposal to put in place an independently verified accreditation scheme for green supply tariffs. This proposal was initially put forward in the 2005 consultation and following responses to this consultation we have developed our thinking about the way such a scheme may work in practice. We recognise that there is a range of options for how such a scheme could be developed and we welcome views on the options we have outlined in this chapter.

Question box

Question 1: Do you agree with Ofgem's view that an "at a glance" mark is appropriate for green tariffs?

Question 2: Do you agree with Ofgem's view that the accreditation scheme should enable the "ranking" of tariffs or should it be a pass or fail?

Question 3: Is it appropriate for the accreditation rating to distinguish between carbon and other environmental benefits?

Question 4: How should the "stars" be allocated in respect of the carbon indicator and for other environmental benefits?

Question 5: Do you agree with the proposed criteria for the different stars put forward by Ofgem?

Question 6: What alternative criteria could be used?

Question 7: Do you agree with Ofgem's view that the scheme should apply in respect of:

- low carbon and renewable technologies;
- full range of environmental tariffs; and
- tariffs for the domestic and non-domestic markets?

Question 8: Do you agree with Ofgem's view that the scheme should be funded by suppliers?

Background

3.1. In our earlier consultation, we proposed the development and implementation of a voluntary third party accreditation scheme for green supply tariffs in GB. Nearly all of the feedback we received was supportive of this proposal, with parties noting the importance of developing the arrangements in consultation with stakeholders and licensees. We have developed our thinking on how such a scheme could operate and have outlined this below.

3.2. In developing this proposal, we recognise that there are a range of options for how such a scheme may be developed, and that stakeholder input will be essential in developing a successful scheme. As such, we recognise the work that the Energy Saving Trust (with support from Defra) has been taking forward in this area and welcome the publication of their consultation ('Accreditation of Green Tariffs') which sets out their initial proposals regarding the desirability, feasibility and content of any such scheme.

3.3. Ofgem and the Energy Saving Trust are very keen to work together to ensure that our initial proposals for an accreditation scheme can be considered together with industry stakeholders. However, clearly we are separate bodies with different remits and as such there are some areas where our views, and hence proposals, will differ. We are intending to use the working groups to develop our thinking further with industry stakeholders, and together evaluate the different options available. This is with a joint view of developing a single industry supported scheme that will best facilitate customer choice and understanding of the various green supply tariffs available, whilst ensuring the cost and administrative burden on suppliers is kept to a minimum.

Third party accreditation scheme

3.4. An accreditation scheme is a system whereby goods or services are given a performance or quality rating against an objective set of criteria. Widely recognised examples are the Fair-Trade scheme or the star rating systems commonly used for hotel or restaurant guides. An important element for successful operation of schemes of this nature is the appointment of an independent third party who can verify supplier performance against the set criteria. By ensuring a non-biased assessment, this could provide greater confidence to customers in the quality or performance rating given to the goods or services in question.

3.5. In the context of green supply tariffs, an independent accreditation scheme may give greater clarity to customers, regarding what environmental or 'green' benefits they would be supporting by purchasing a particular tariff, thereby assisting customers to make better informed supply choices. For the purpose of clarity, we do not consider that Ofgem would have a role in setting up or administering such a scheme but that this role would be undertaken by an independent accreditor. As such, we welcome the parallel consultation looking at options for how an accreditation scheme could operate published today by the Energy Saving Trust.

3.6. Recent studies by energywatch and the NCC have emphasised the difficulties customers currently experience in evaluating the different products available without trawling through a large amount of information. While we recognise that there is a balance to be struck between introducing administrative burden on suppliers and 'information overload' to customers, both Ofgem and the Energy Saving Trust are of the initial view that it would be both feasible and desirable to design a user friendly "at a glance" system to rate the environmental benefits of different green supply tariffs. We recognise that there is a range of options for how such a scheme could be developed, which could enable suppliers to identify their tariff with a kitemark (similar to that used in the Fair-Trade scheme) or through a star rating system (similar to those used in hotel or restaurant guides).

3.7. We see merits in both the kitemark and rating approaches, but have an initial preference for a rating system over a kitemark approach, in order to give greater recognition to how and where different tariffs are making a contribution to the environment. We have explained our initial thinking on the merits of a rating system below and would welcome views from interested stakeholders on this. The Energy Saving Trust has outlined the reasons behind its initial preference for a kitemark

approach in its consultation document also published today. Ofgem and the Energy Saving Trust would like to work with customers, the industry and other interested parties in order to further develop these options during the consultation phase and envisage that the development of these proposals will form an important part of the discussions at the upcoming working group sessions.

Star rating system

3.8. This section sets out in more detail our initial proposal for a third party accreditation scheme based on a star rating system for green supply tariffs. It sets out, and seeks the views of interested parties, on various aspects of the scheme, including:

- How the rating scheme would operate;
- The application of the scheme;
- The administration of the scheme; and
- The funding of the scheme.

How the rating scheme would operate

Relationship with the revised guidelines

3.9. We believe there is value in having clear guidelines for how suppliers define green supply tariffs, and consider that the proposed revisions outlined earlier in this document would further enhance the value of the existing guidelines. However, while the guidelines provide greater clarity to stakeholders in respect of how suppliers will develop or define such tariffs, our initial view is that the introduction of an "at a glance" rating system would make information regarding the merits of tariffs much more accessible to customers. As such, while we continue to propose that the guidelines should set out the principles for industry as to how these tariffs should develop, we envisage that an accreditation scheme (once implemented) would sit alongside the guidelines and provide increased clarity and in turn confidence to customers.

3.10. The guidelines would therefore continue to be non-binding on suppliers, but in setting out the principles for how green tariffs should be defined, we propose that the guidelines would form the basis and scope for how the accreditation scheme would develop. This approach would enable the guidelines to continue to be revised over time in response to perceived changes in the market for green tariffs. We would envisage therefore that, as they are now, the guidelines would remain a 'living document' and where amendments were made to the guidelines, these could be reflected as additional criteria to the accreditation scheme.

3.11. However, there is clearly a range of options for how the scheme could be implemented. Another option could be that once the accreditation scheme is implemented, the guidelines could at that point 'fall away'. Our initial thinking is that while this market is continuing to evolve, there is value in the additional clarity that the guidelines provide to customers and industry stakeholders. Over time however, this may be a more viable option, particularly once the scheme has been up and running for a period of time.

3.12. We would welcome the views of interested parties on this issue and particularly on the question of whether suppliers should need to 'sign up' to the guidelines in order to have their tariffs considered as part of the accreditation scheme.

Application of the scheme

3.13. As implied in our initial proposals on how the scheme would operate and also consistent with the revised guidelines, we propose that the accreditation scheme should cover:

- The full range of green tariffs including specified generation technology; fund based schemes and carbon offsetting schemes. In considering the potential inclusion of any such schemes, we are of the initial view that it is important that fund based and carbon offsetting schemes are independently accredited and note the consultation that Defra is currently undertaking in regard to offsetting schemes. Under the proposals outlined above, fund based and carbon offsetting attributes could be used as criteria for distributing the carbon related stars;
- A wide range of generation technologies that achieve a low carbon impact (including Good Quality CHP, clean coal and nuclear) in addition to renewable technologies. By extending the scope of the accreditation scheme, as well as the guidelines, to cover low carbon generation options we consider that the contribution of these technologies to minimising the environmental impacts of carbon on the environment can be recognised, while at the same time accounting for any associated environmental benefits or disadvantages that the use of such technologies may deliver;
- Tariffs applicable to both non-domestic and domestic customers.

3.14. As noted earlier, we recognise that there are a wide range of views in industry as to how an accreditation scheme should develop or be applied, particularly in respect of the question of which generation technologies should be included. We have set out our initial thinking on these questions above, further to the views we have discussed in Chapter 2, and welcome feedback from industry stakeholders and customers in respect of these proposals.

"At a glance" rating system

3.15. It is our initial view that a scheme, with an easy "at a glance" rating system for green tariffs would enable customers to compare readily the relative environmental

benefits of competing green supply tariffs. This would allow those customers that wished to support "100% renewable energy" tariffs (for example) the opportunity to do so, while at the same time, differentiating more clearly what other competing tariffs also provide in terms of environmental benefits (e.g. through tariffs marketed as "low carbon"). It could also enable customers to make more direct comparisons between different classes of tariffs (i.e. specified generation source; carbon offset; and environmental fund) by looking at the environmental benefits of each of these against set criteria.

3.16. Further, as suppliers would receive a higher rating in response to providing additional environmental benefits, we consider that this type of scheme could encourage greater innovation in the types of green tariffs available and therefore greater customer choice in this market. As the allocation of the rating mark would be reliant on suppliers being able to verify the claims they make in respect of the tariff, this type of system would also increase customer confidence in the claims made by suppliers regarding green tariffs.

3.17. In order to deliver this in a readily understandable, user-friendly way, we propose that a rating scheme could be developed, based on the allocation of a number of stars judged on set criteria - similar to the hotel or restaurant guide examples discussed earlier. In this way, the stars attributed to a particular tariff could reflect which of the environmental indicators that tariff was helping to achieve - i.e. whether it was a low-carbon tariff or whether it was derived from renewable technologies.

3.18. In assessing the environmental benefits of any tariff, it is clear that the criteria used to judge the tariff would need to be objective and clearly measurable to both suppliers and customers. We have given some initial consideration to the types of environmental indicators that could be used to develop a system of accreditation for green supply tariffs.

3.19. Given the increased public awareness of the effects of greenhouse gas emissions, and the political commitments to reduce these, we propose that there is merit in assessing the carbon impact of each tariff as a distinct indicator from other factors within the accreditation scheme.¹¹ This could therefore be developed as a distinct indicator for assessment under the scheme, in addition to criteria that would assess the relative environmental merits such as those achieved through renewable generation sources or the potentially damaging effects of particular technologies for example. We propose there would be benefit in having the scheme distinguish between:

- The carbon intensity of the green supply tariff; and
-

¹¹ This would be consistent with the approach taken by the NCC in its recent report on green tariffs for domestic customers.

- The environmental merits associated with the tariff.

3.20. By widening the scope to assess the merits of green supply tariffs in this way, it would therefore be possible for customers to take more informed choices in respect of how "green" they wish their tariff to be. For example, this would enable customers to assess and compare the merits of 100% renewable tariffs, environmental fund tariffs or carbon offsetting schemes in terms of their carbon impact and other environmental benefits. It would also potentially allow the inclusion of renewable and other low carbon technologies (e.g. Good Quality CHP or nuclear generation) to be compared. By allowing all such tariffs to be accredited by the same scheme we believe that this will retain the maximum scope for supplier innovation.

3.21. Table 2 below provides an illustrative example of the way that the star rating scheme could work in practice.

Table 2: Illustrative example of star accreditation scheme

	Carbon Emissions Indicator			Environmental benefits	
	Medium	Low	Zero (or close to 0)	Efficiency	Waste
Supply Tariff 1 Primary fuel = Wind turbine	★	★	★		★
Supply Tariff 2 Primary fuel = Good Quality CHP	★	★		★	★

3.22. This example suggests that the star rating scheme would be based upon a system whereby green supply tariffs, from different supply sources, would be eligible to obtain up to three stars dependent upon the carbon indicator of the technology used and a further potential two stars in light of any additional environmental benefits. Clearly, it will be important that each indicator is based on a set of objective criteria that would need to be met before the stars relating to that indicator would be attained. This could involve higher ratings being attributed to those tariffs where the suppliers were taking additional measures (i.e. in particular, beyond their RO requirements) to achieve greater environmental benefits. Options for how these criteria could be developed are discussed further below.

3.23. We would be interested in respondents' views regarding whether any additional indicators should be included in the scheme, or how the criteria for carbon intensity and environmental benefits should be weighted. We anticipate that as discussions evolve as part of the work group process, that the existing balance proposed between the criteria may need to be realigned or that other additional indicators may be appropriate for inclusion.

Initial criteria for assessing the star ratings

3.24. We consider that the development of objective criteria is essential if the rating scheme is to work effectively. This will enable greater customer and supplier confidence regarding what a tariff needs to deliver in order to obtain greater numbers of 'carbon' or 'environmental benefit' stars.

3.25. We set out some initial thinking as to what factors could be used in assessing each of the key indicators below. In developing these initial criteria for how the tariffs would be rated, we have given consideration to stakeholder feedback regarding what constitutes additionality and also the indicators used by NCC in carrying out its comparison of green supply tariffs. We welcome feedback in respect of these initial criteria as part of this consultation process and expect these will be developed further with customers and industry stakeholders as part of the workgroup discussions.

'Carbon impact' indicator

3.26. As illustrated in Table 2, our initial view is that there would be three stars which relate to the carbon impact of a green supply tariff, with those tariffs that are 'carbon neutral' achieving the greatest star rating. Where a tariff is based on renewable technologies, we would expect that suppliers issuing these as 'green' tariffs would need to demonstrate an additional carbon benefit that goes beyond their legal obligations under the RO to attain more than one carbon related star. Factors that could be considered in rating tariffs against this criteria could therefore include:

- Retirement of ROCs or other environmental trading certificate;
- Additional investment in renewable generation; or
- Carbon offsetting measures (e.g. through planting trees or other activities).

3.27. The assessment against each of these factors would be underpinned by the independent verification of suppliers' claims as part of the accreditation process, including the provision of the required evidence of supply in line with the fuel mix disclosure, as discussed in Chapter 2. The overall rating for the carbon indicator would therefore be based on a combination of how the tariff fared against each factor, with tariffs achieving greater benefits against each factor being attributed higher star ratings.

3.28. For example, where suppliers are meeting their requirements under the RO and contributing to the development of new renewables in that way, this could be recognised at the minimum level of a 'one' star rating against the carbon indicator. Where suppliers are demonstrating further measures (above and beyond their legal requirements under the RO), this additionality could be recognised with a higher star rating against this indicator.

3.29. To further develop these initial criteria, we would welcome respondents' views in relation to the questions below:

- How many stars should be allocated to tariffs specifying renewable technologies where no additionality is demonstrated?
- What percentage of ROCs should be retired in order to demonstrate additionality?
- Can suppliers demonstrate additionality by producing ROCs in excess of their legal requirement (rather than retiring ROCs) and if so, what percentage of ROCs over and above the legal requirement should be produced to attain each carbon star?
- Which other traded environmental certificates could be used to demonstrate additionality, and what level of such certificate(s) should need to be provided to attain a carbon star?
- How should the money spent on renewable funds be rated to attain each carbon star - could this be calculated on the percentage of customer bill?
- What percentage of carbon should be offset to attain each carbon star?
- What other objective criteria could be used to assess the carbon impact of a green supply tariff?

'Environmental benefit' indicator

3.30. As illustrated in Table 2, our initial view is that there would be two stars which relate to the environmental benefits attributable to a green supply tariff, with those tariffs that achieve the greatest environmental benefits, achieving the highest star rating.

3.31. Our initial thinking is that one of the stars would take into account the overall efficiency of the generation source, and the second star could account for any detrimental impacts associated with that source (e.g. through waste or impact on wildlife). As such, the 'efficiency' star could consider for example the extent to which transmission losses were observed as a result of the proximity of the generation source to the electricity grid, or the efficiency of the generation source itself in terms of the load factor at which it typically operates. The 'waste' star could for example account for the environmental impact associated with the radioactive waste produced through nuclear generation, or the environmental impact associated with other waste gases (e.g. sulphur emissions).

3.32. As with the initial criteria we have developed in respect of the carbon indicator, these factors will need to be developed into a set of objective criteria which could be used to judge environmental merits of each tariff. In order to do so we have again developed a series of questions for which we would welcome respondents' views. Feedback received to the consultation will be fed into the work group discussions:

- What factors are appropriate to consider when assessing the efficiency of a green supply tariff - e.g. is it appropriate or feasible for transmission losses associated with a tariff to be considered and measured as part of the accreditation scheme?
- What criteria should be used to measure the efficiency of the generation source - could load factor of particular generation types be a suitable measure in this respect?
- How should the lifecycle issues associated with nuclear waste be assessed? For example, would it be appropriate for tariffs including nuclear generation to always result in 'no stars' for this category, or could other measures be undertaken to offset these impacts and gain additional stars in this category?;
- Is it appropriate to rate the impact of other greenhouse gases - if so, what other gases should be considered and how should their impact be rated?;
- Is it appropriate for issues associated with visual amenity or the impact on surrounding wildlife to be assessed within the scheme - if so, how could these be assessed objectively?
- Should the use of renewable technologies be recognised otherwise than in respect of carbon emissions and efficiency - if so, how should this be rated relative to the other criteria?
- Are there any other criteria that should be included to assess the environmental benefits of the green supply tariff?

3.33. As indicated above, these questions are designed to facilitate debate and discussion on how to best develop the objective criteria necessary for implementing an accreditation scheme. We recognise that in developing these criteria there needs to be a balance between the desirability of distinguishing between and rating the environmental attributes of different supply tariffs, and the need to ensure that the cost and administrative burden of the scheme is not prohibitive. It is also clear that providing objective criteria to rate tariffs will be easier for some indicators than others. Feedback from industry stakeholders and customers on how to develop these criteria is therefore a key element of this consultation process.

Administration of the scheme

3.34. We consider that in order for the accreditation scheme to ensure customer confidence regarding the quality and performance of green supply tariffs, it is important that the scheme is run by an independent third party. To be clear, we do not envisage Ofgem would have a role in setting up or administering such a scheme but instead that this role would be fulfilled by an independent accreditor. In view of this we welcome the parallel consultation currently being undertaken by the Energy Saving Trust (with support from Defra) regarding their proposal for how an accreditation scheme for green supply tariffs could develop.

3.35. A key role of the accreditation scheme will be the third party verification of the claims made by the suppliers in respect of the criteria used to assign stars. This would be carried out in compliance with the requirements of the guidelines relating to transparency and verification.

3.36. As with the revised guidelines, we envisage that an accreditation scheme would be voluntary and therefore not legally binding on suppliers. In our proposal, the scheme criteria would be based on principles outlined in the guidelines. Although the guidelines would remain voluntary we consider that in order to achieve greater customer confidence in the scheme, it would be appropriate for suppliers to sign up to the guidelines to qualify as a party to the accreditation scheme. Although there would therefore not be any specific licence requirements for suppliers to comply with the guidelines, we believe that the potential for a supplier to have their tariff rating removed by the independent accreditor would be sufficient incentive to maintain compliance with the guidelines. We believe that this approach would strike the correct balance between the protection of customers and the objective to achieve better regulation. As discussed earlier, to ensure that the guidelines can become self-regulated by industry, we intend to engage actively with the industry and consumer stakeholders during the consultation phase of developing the guidelines to produce revised guidelines that suppliers can commit to and customers can endorse.

Funding of the scheme

3.37. We envisage that the accreditation scheme would be funded by those suppliers who are part of the scheme. In this respect, individual suppliers would be required to pay a fee to become a member of the scheme as well as an ongoing subscription payment. All fees received would be used to implement and run the accreditation scheme on an enduring basis with any additional costs of the scheme funded through charges to suppliers. Given that the accreditation scheme will provide benefits to suppliers by making clearer the relative merits of their green supply tariffs to customers and enabling them to compete on this basis, we think this should provide an incentive for suppliers to sign up to the scheme and commit required fees to fund its operation.

3.38. We anticipate that through this process of joint consultation with Energy Saving Trust it will be possible to develop proposals that suppliers can commit to. However, we recognise that there will be a balance between the complexity of the scheme and its associated administrative cost. In this respect, the costs that suppliers face, as a signatory to the scheme should be reasonable and proportionate to the potential benefits that may be achieved. We welcome feedback from industry stakeholders on how this element of the scheme could be most effectively developed.

Way Forward

3.39. We intend to hold a series of workshops together with Energy Saving Trust to discuss our initial proposals in more detail with industry participants and customer representatives. At these workshops Energy Saving Trust will also be providing detail regarding their proposals for how such a scheme could operate. We are keen

to hear the views of interested stakeholders on the proposals discussed in this document and in particular their suggestions on ways in which the proposed rating scheme could be improved.

3.40. If you would be interested in attending any of these sessions, please register by sending an email to ES&SMarkets@ofgem.gov.uk. Please note that attendance at these events will be limited.

Appendices

Index

Appendix	Name of Appendix	Page Number
1	Summary of Responses to 2005 Consultation	32
2	Draft Guidelines on Green Supply	38
3	Consultation Response and Questions	42
4	The Authority's Powers and Duties	44
5	Glossary	46
6	Feedback Questionnaire	49

Appendix 1 - Summary of Responses to 2005 Consultation

Status of the guidelines

1.1. Respondents to the 2005 consultation had mixed views as to whether Ofgem should publish guidelines. Six respondents supported the revision of the guidelines as they considered that they would help customers make appropriate choices about green supply tariffs by ensuring that there was reliable information available regarding the offer being made. Respondents that supported revised guidelines generally considered that the guidelines should be based upon the three key features of transparency, additionality and verification.

1.2. Three respondents expressed concern about the release of revised guidelines as they considered that the guidelines may reduce consumers' choices or attempt to prescribe tariffs consumers can sign to. Two respondents opposed to the release of revised guidelines noted that verification of claims made within advertising and promotional material is already subject to scrutiny by the Advertising Standards Authority (ASA). Under the current system suppliers have an obligation to ensure that any representations they make regarding their tariffs are truthful and can be substantiated. These respondents considered that there was no need for any further regulation of green supply tariffs.

1.3. The third respondent that expressed concern about the revision of the guidelines, considered that Ofgem's primary concern should be encouraging innovative product development that meets customer needs, within the principles of simplicity, transparency and honesty. This respondent felt that suppliers were responsible for working within the current regulatory arrangements to achieve this rather than following a path specified by Ofgem. The respondent proposed that suppliers should work within the current regulatory framework of the ASA, Office of Fair Trading (OFT) and others to develop and innovate as appropriate.

Extension of the guidelines to the non-domestic sector

1.4. Respondents to the 2005 consultation document noted that despite the non-domestic sector being by far the largest consumer of green supply tariffs, the 2005 draft guidelines were targeted more toward the domestic sector. There were differing views amongst the respondents as to the value of the extending the scope of the guidelines to include the non-domestic sector. Four respondents thought that the current regulation of the non-domestic sector provided sufficient guidance for the purchase of green supply tariffs and did not support the extension of the guidelines covering this sector, whilst four respondents supported the provision of guidelines that include this sector. Six

respondents considered that the provision of guidelines should not restrict the ability of this market to negotiate their contracts for green supply.

1.5. Six respondents considered that the non-domestic sector use the purchase of green supply as a means of obtaining CCL exemption rather than a green proposition per se. The sophistication of this sector and its motivation to achieve genuine carbon reduction as a result of purchasing green energy was considered by these respondents to be significantly different to that of domestic and Small and Medium Enterprise (SME) markets.

1.6. One respondent noted that for practical purposes the smallest SMEs are in a similar position to domestic customers in their ability to negotiate their supply. However, this respondent considered that it may overcomplicate the guidelines to restrict their application to tariffs made to domestics and SMEs, without extending their application to tariffs applicable to the wider non-domestic sector. Another respondent supported the extension of the guidelines to the non-domestic sector as the guidelines could then provide objective criteria for the assessment of claims for green products in this sector. This respondent noted that in the past such claims had been, in some instances, misleading. In their response to the consultation in 2005, a large customer also supported the inclusion of the non-domestic sector in the scope of the guidelines as it considered that the current market did not enable them to identify where their purchase of green energy has resulted in a genuine carbon reduction. This large customer noted that as non-domestic customers "come under increasing pressure to achieve more challenging carbon reduction targets they simply select alternative solutions if the purchase of green energy is not transparent and additional". As a result, this respondent noted that customers were becoming more cynical about green energy, and action needed to be taken to rectify this if the demand side was to play a part in stimulating investment in renewable energy.

Extension of the guidelines to low-carbon technologies

1.7. Although this issue was not directly consulted on, some respondents referred to it in their response.

1.8. Two respondents suggested that Ofgem should consider extending the definition of green supply beyond renewable electricity supply, to include other carbon reduction technologies. These respondents acknowledged that although these technologies were not renewable they provided some level of carbon abatement that should be recognised. To include low carbon technologies in the definition of green supply would, as one respondent noted, assist the Government in meeting its Kyoto Protocol commitment.

1.9. The majority of respondents discussed only the use of renewables as "green energy", possibly as the definition and discussion in the revised guidelines specifically referred to renewables as the only form of "green supply".

Transparency

1.10. Twenty four respondents agreed that transparency was an important feature of green supply guidelines to ensure consumer confidence in the product. The views of respondents were mixed as to whether the 2005 revised draft guidelines provided sufficient clarity on how such transparency should be achieved and what transparency should constitute. One respondent noted that currently green supply tariffs were lacking transparency as a result of the different environmental certificates in operation. This respondent also noted that the operation of fund based tariffs should be auditable and criteria for grant applications from the fund should be clear with customers being provided regular updates on where these funds were being invested. One large customer in particular requested that the issues about transparency be simplified so that customers could easily comprehend what the green supply offer was and how much carbon would be abated from choosing that tariff versus obtaining their supply from the standard grid mix. Another respondent considered that transparency of tariffs was demanded by the market and if the supplier did not provide transparent information in its claims, it would suffer reputational damage and loss of market share. As such, this respondent did not consider that there were further requirements for transparency.

Evidence of supply

1.11. Most respondents identified compliance with an agreed standard of evidence of supply as the minimum requirement for green supply. For example, one respondent was concerned about the multiplicity of certificate mechanisms and believed that there should be clear distinction between the certificates such that it would be clear to industry that they are not interchangeable. One respondent suggested one green electricity certificate system should be put in place.

1.12. Most respondents agreed that REGOs were the appropriate basis of evidence for green supply. One respondent suggested an international agreement on exchange rules was necessary to support international trade in renewable electricity. Meanwhile where renewable supply was from outside GB a respondent suggested that suppliers contracts should be used to verify supply.

Links with fuel mix disclosure

1.13. Most respondents supported making a link between the fuel mix disclosure and the supply of renewable energy in order to avoid double counting. The discrepancy between REGO and LEC accounting periods was highlighted in several responses. For instance, one response proposed for the verification to be undertaken every two years as with the LECs.

1.14. A respondent commented that where products are sold based on other bases for additionality, such as retiring carbon certificates, there will no longer be a link with the requirements of the fuel mix disclosure.

1.15. Many respondents pointed out that there was the potential for double selling if a supplier sold electricity evidenced by a LEC as part of a Climate Change Levy exempt "renewable supply contract", and they (or another supplier) used a REGO linked to the same generation to support a green supply arrangement in the domestic market.

1.16. One respondent raised the concern that whether or not CCL exempt energy in the commercial market could be sold as green was confusing. It was proposed that the guidelines must be consistent with current HM Customs and Excise rules¹² and it would be inappropriate for contracts that require LECs also to be supported by REGOs.

Definition, measurement and standards for additionality

1.17. Most respondents stressed the importance of additionality and considered that consumers needed to be confident that they were making a difference by signing up to a green tariff. Many observed that consumers were becoming increasingly cynical about green energy. Several responses recognised that it is a complex issue and recommended that the guidelines provided clear and simple definitions.

1.18. A number of respondents were concerned that it was potentially misleading to consider all renewables as green supply. Many respondents considered that if the supplier was not taking action over and above its Renewable Obligations, it was not making a difference to the environment. One respondent recommended that other environmental benefits, e.g. increasing biodiversity, should be included in the definition of additionality. Others proposed a differentiation of green supply, suggesting the use of appropriate labels such as "zero CO2/offset" or "biodiversity" for other benefits.

1.19. Some respondents did not support a strict definition of additionality as this could stifle innovation and product development, being too complex for customers and restricting choice. One commented that the concept as expressed in the document was difficult to understand.

¹² The legislative basis for renewable levy exemption certificates (Renewables LEC) is contained within Part IV of the Climate Change Levy (General) Regulations SI 2001/838. For example, regulation 48(1) determines that electricity only constitutes "renewable source electricity" for the purposes of CCL exemption where it is the subject of a certificate (a levy exemption certificate).

Retirement of ROCs

1.20. Some respondents supported ROC retirement as a valid approach to demonstrate additionality, stating that it could have benefits in the development of renewable electricity in the medium to long term. Such respondents considered that the nature of the benefit would need to be conveyed to consumers.

1.21. One respondent commented that Ofgem should consider the potential customer and supplier confusion from using the REGOs for verifying supply and ROCs for verifying additionality.

1.22. Other respondents were strongly opposed to the suggestion that ROC retirement demonstrates additionality. They stated that because of the way the Renewables Obligation is funded, the possibility for suppliers to buy out of their obligation of the market is short, ROC retirement does not provide any incentive for investment in new renewable generation, but would result only in increased returns to large suppliers.

Other claims for additionality

1.23. One respondent supported the idea of carbon offsetting through the purchase and retirement of EU and international carbon credits. Another respondent believed a supplier's yearly expenditure on developing new renewable generation capacity, expressed in pounds per customer was the best measure of commitment to tackling climate change.

1.24. Some respondents did not consider there to be a role for suppliers to retire EU-ETS allowances as they are not guaranteed to be renewable, and have a different goal. One identified some inherent difficulties as carbon emission reductions do not contain the additional benefits of renewable electricity generation, the retired may have been generated by a different emission reduction process, and the carbon reduction is difficult to calculate. Other respondents considered that EU-ETS needed to be operating longer before value judgment regarding retirement of certificates could be made.

Operation of funds

1.25. Most respondents agreed premiums raised under green tariffs should be paid into a separate fund, and it is important that suppliers demonstrate to consumers what proportion of the average electricity bill is going into the fund.

1.26. One respondent was not positive about the use of funds to ensure additionality, stating it could become bureaucratic and costly particularly for small producers who are not in a position to yearly re-invest in new generation

production. They recommend only 50% of the premium should be paid into the fund.

1.27. One respondent raised a number of questions regarding how the fund will be managed, operated, how customers will be informed of the expenditure and how the environmental claims will be substantiated. Another respondent recommended having a lower limit of £10 per year (increasing in line with RPI).

Appendix 2 - Draft Guidelines on Green Supply

The proposed changes to the guidelines on which we have specifically requested views as part of this consultation document are outlined in italics below. However, the entire guidelines are open to consultation and therefore we would appreciate feedback on any part of these guidelines.

1.1. The key features of green supply tariffs are:

- **transparency:** tariffs need to be clear, and to be consistent with public understanding and expectations as to what constitutes 'green energy'. This may include non-renewable low carbon technologies;
- **additionality:** consumers choosing a green tariff need to be able to be satisfied that their support is making a difference;
- **verification:** suppliers will need to have and retain evidence to verify all claims and to make it available to the public or an external verifier; and
- **accreditation:** suppliers will need to sign up to a third party administered accreditation scheme.

1.2. [These guidelines apply to green tariffs applicable to domestic and non-domestic consumers¹³.]

Transparency

1.3. All marketing and related information should be based on correct, up-to-date and specific information about the product that is being offered.

1.4. Claims of supply from renewable generation should be based on the same requirements that apply under the fuel mix disclosure supply licence condition, such as:

- The application of the definition of renewable generation (wind, solar, geothermal, wave, tidal, hydropower, biomass, landfill gas, sewage, treatment plant gas and biogases); and
- The evidence to support supply (i.e. by Renewable Energy Guarantee of Origin (REGOs)).

¹³ Views are invited as to how these guidelines should be revised in order to apply to offerings for non-domestic consumers. See paragraph 2.12 of this document.

1.5. Prospective purchasers of green supply tariffs should be informed by the supplier of the specific technologies of generation relevant to the green tariff – this is particularly important in the case of large hydro stations, waste to energy generation, generation from other non-renewable technologies, and generation outside Great Britain

***N.B.** Evidence of supply of renewable energy alone does **not** constitute additionality, especially where that supply forms part of a supplier's Renewables Obligation.*

1.6. The use of images and symbols should reflect the product being offered; for example, the use of images of wind generation should not be used for a tariff that does not include substantial wind generation.

1.7. [Suppliers should include information on consumer bills or their website (in the case of domestic customers this information may be based on standard domestic tariff) regarding:

- *Percentage of domestic customer bills under standard tariff and green tariffs funding renewable energy; and*
- *Estimation of carbon being saved against standard tariff;*
- *Percentage of carbon being offset.*

1.8. Suppliers should also publish fuel mix disclosure charts for each of its green tariffs within the context of their overall fuel mix.¹⁴]

Additionality

1.9. Consumers choosing a green supply tariff need to be able to be satisfied that their support is making a difference to the environment in one or more of the following ways:

- ensuring additional **generation** from **renewable** sources than would otherwise have occurred;
- ensuring **investment** in the expansion of **renewable generation capacity** that would not otherwise have occurred;
- *[ensuring **generation** from **low-carbon** sources;*
- *ensuring **investment** in the expansion of **low-carbon capacity**;¹⁵]*

¹⁴ We are seeking views on this information as part of the consultation. See paragraph 2.24.

-
- a clearly identified **environmental benefit** not directly related to renewable or low-carbon energy supply.

1.10. Suppliers should inform customers as to which of these form the basis of the additionality being claimed, and which do not.

Verification

1.11. Suppliers should be responsible for the evaluation and provision of data necessary for the verification of all claims made in the marketing of green energy. Before marketing, measures should be established to ensure that the claim can be objectively verified.

1.12. The evaluation should be fully documented and the documentation retained by the claimant for the purpose of the information disclosure referred to below. This should be for the period that the tariff is made, and for a reasonable period thereafter.

1.13. Information used to verify claims should be made available in one of the following ways:

- suppliers may voluntarily release to the public the information necessary to verify an environmental claim;
- the information necessary to verify the claim may be disclosed, upon request, at a reasonable cost (to cover administration), time and place, to any person seeking to verify the claim; or,
- the claim may be verified through third party arm's length accreditation or auditing (see below).

Verification of supply

1.14. Suppliers will need to have and retain evidence to verify that the total energy sold under green supply arrangements does not exceed the amount of renewable generation claimed in the supplier's fuel mix disclosure label.

1.15. Any specific claims in regard to technology employed should be supported by evidence (e.g. REGOs) with purchases of energy consistent with the claim as to origin, technology etc.

¹⁵ Views invited on this wording. See paragraphs 2.15 - 2.17 of this document.

1.16. Verification of supply by particular technologies should be provided in accordance with the fuel mix disclosure licence condition. As such suppliers would be required to prove supply through:

- In the case of renewable, a REGO relating to the generation in the disclosure period, a generator declaration relating to that period indicating a renewable energy source; or,
- In the case of coal, natural gas, nuclear or other, a generator declaration relating to that period indicating the particular energy source; or,
- In the case of electricity obtained via an electricity exchange or imported from an undertaking outside the Community, where aggregate figures are provided by the electricity exchange or undertaking, such of those figures as identify the amount of electricity produced from a particular source, and
- Where particular technologies are specified, the information provided by the supplier should be broken down into the individual categories of generation.

1.17. Given the unpredictable nature of many renewable sources it is acceptable for evidence to be averaged over a year.

1.18. Evidence for preceding years is an acceptable measure to support marketing to future customers.

Verification of additionality

Deletion of Renewable Obligation Certificates (ROCs)

1.19. If suppliers use the acquisition of ROCs beyond those required for their obligation for the verification of additionality, these ROCs should be deleted from the Register or held by other parties, such as third party accreditation bodies.

Operation of funds

1.20. Premiums raised under green tariffs should be paid into a fund that is completely and verifiably separated from the general accounts of the supplier. Third party auditing of payments into and out of the fund is essential to match money collected with payments made, and to verify consistency with the criteria for payments.

1.21. The criteria for payments into and out of the fund should be clear and published.

1.22. The criteria should also be clear in relation to the timing of expenditure; whether the expenditure is in the form of grants, loans or equity investment; and whether the provision is directed at commercial entities or community organisations.

1.23. In the case of commercial investment, the treatment of future benefits e.g. from ROCs will need to be addressed in detail.

1.24. Suppliers should evaluate expenditure from contribution-based tariffs and report to consumers their performance against the funds criteria.

[Third party badging of green supply tariffs

1.25. Suppliers are required by these guidelines to be party to an accreditation system for green supply tariffs, as a means to ensure verification and transparency of tariffs. This may allow public confidence that the claims are fully audited and verified by third parties and increase the ability of customers to choose between tariffs.¹⁶

¹⁶ The accreditation scheme is subject to consultation by Ofgem (see Chapter 3 of this document) and the Energy Saving Trust and views are welcome in respect of this paragraph.

Appendix 3 - Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document. (In particular, we would like to hear from suppliers, customers and environmental bodies)

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by **16 July 2007** and should be sent to:

- Clair Hogg or Hannah Cook
- European Strategy and Environment
- 9 Millbank, London, SW1P 3GE
- 020 7901 7089 or 020 7901 7444
- ES&SMarkets@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Next steps: Having considered the responses to this consultation, Ofgem intends to publish a final set of guidelines in September 2007. Any questions on this document should, in the first instance, be directed to:

- Clair Hogg or Hannah Cook
- European Strategy and Environment
- 9 Millbank, London, SW1P 3GE
- 020 7901 7089 or 020 7901 7444
- ES&SMarkets@ofgem.gov.uk

CHAPTER TWO

Question 1: What should Ofgem's role be in terms of providing guidance on green supply tariffs?

Question 2: Should the guidelines be mandatory or voluntary?

Question 3: Should tariffs to non-domestic customers be covered by the guidelines?

Question 4: Should tariffs involving non-renewable non or low-carbon technologies (including Good Quality CHP, clean coal and possibly nuclear) be included within the guidelines?

Question 5: Should suppliers include additional information on customers' bills to support the achievement of transparency?

Question 6: Should an agreed standard of evidence be defined and, if so, what should this be?

Question 7: Is it appropriate for requirements relating to evidence of supply to follow the same requirements as that required for evidence of supply for the fuel mix disclosure?

Question 8: Is Renewable Obligation Certificate (ROC) retirement an appropriate indicator of additionality?

Question 9: Do you agree that there should be clear rules covering the use of funds for transparency and verification and, if so, what should the criteria for this include?

CHAPTER THREE

Question 1: Do you agree with Ofgem's view that an "at a glance" mark is appropriate for green tariffs?

Question 2: Do you agree with Ofgem's view that the accreditation scheme should enable the "ranking" of tariffs or should it be a pass or fail?

Question 3: Is it appropriate for the accreditation rating to distinguish between carbon and other environmental benefits?

Question 4: How should the "stars" be allocated in respect of the carbon indicator and for other environmental benefits?

Question 5: Do you agree with the proposed criteria for the different stars put forward by Ofgem?

Question 6: What alternative criteria could be used?

Question 7: Do you agree with Ofgem's view that the scheme should apply in respect of:

- low carbon and renewable technologies;
- full range of environmental tariffs; and
- tariffs for the domestic and non-domestic markets?

Question 8: Do you agree with Ofgem's view that the scheme should be funded by suppliers?

Appendix 4 – The Authority's Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority (“the Authority”), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.¹⁷

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly¹⁸.

1.4. The Authority's principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of consumers, present and future, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- The need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- The need to secure that all reasonable demands for electricity are met;
- The need to secure that licence holders are able to finance the activities which are the subject of obligations on them¹⁹; and
- The interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.²⁰

¹⁷ entitled “Gas Supply” and “Electricity Supply” respectively.

¹⁸ However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

¹⁹ under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.

1.6. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

- Promote efficiency and economy on the part of those licensed²¹ under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
- Protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity;
- Contribute to the achievement of sustainable development; and
- Secure a diverse and viable long-term energy supply.

1.7. In carrying out the functions referred to, the Authority must also have regard, to:

- The effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- The principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- Certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation²² and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

²⁰ The Authority may have regard to other descriptions of consumers.

²¹ or persons authorised by exemptions to carry on any activity.

²² Council Regulation (EC) 1/2003

Appendix 5 - Glossary

A

Additionality

Suppliers offering green tariffs must be able to show that consumers choosing the tariff will be making a difference to the environment over and above the legal requirements that suppliers are obliged to meet under the Renewables Obligation (defined below). This concept is known as additionality.

C

Climate Change Levy (CCL):

The CCL was introduced by Government in 2001 and is designed to promote energy efficiency and stimulate investment in new energy (electricity and gas) technologies. The levy is a tax on energy use in the non-domestic sector (industry, commerce, agriculture and public sector). It applies to gas, electricity, LPG and coal and is based on the primary energy content of the fuels, not the carbon content.

F

Fuel Mix Disclosure:

The Electricity (Fuel Mix Disclosure) Regulations 2005 implement the requirements of Article 3(6) of Directive 2003/54/EC concerning common rules for the internal market in electricity. This Directive obliges Member States to ensure that each supplier is required to provide details to its customers on the mix of fuels used to produce the electricity it supplies together with certain other environmental information (which at a minimum must be the emissions of CO₂ (in grams of carbon dioxide per kilowatt hour) and the radioactive waste (in grams per kilowatt hour) resulting from the electricity produced).

For each disclosure period (1 April- 31 March each year from 31 March 2004), suppliers are required to provide fuel mix information to customers. The following categories of energy sources are to be used for the purposes of fuel mix disclosure:

- coal;
- natural gas;
- nuclear;
- renewable (which has the same definition as the European Renewables Directive and the REGOs); and
- other.

L

Levy Exemption Certificates (LECs):

Exemptions from the CCL were introduced to encourage the use of less-polluting alternative energy sources. These include exemptions for supplies of electricity generated from new forms of renewable energy, for electricity generated from coal mine methane and energy for Good Quality combined heat and power (CHP) plants. LECs are evidence of CCL exempt electricity supply generated from qualifying sources and are redeemed by suppliers to HMRC to prove the amount of non-climate change energy that had been supplied to non-domestic customers in the given period.

N

Non-domestic:

The term non-domestic refers to the Industrial and Commercial (I&C) sector as well as Small and Medium Enterprises (SMEs). This definition differs from that used in the CCL which specifies that the non-domestic consumers are: Industry, commerce, agriculture, the public service, and other services.

R

Renewable Energy Sources (Renewables):

This document uses the same definition for renewables as The Electricity (Guarantees of Origin of Electricity Produced from Renewable Energy Sources) Regulations 2003. Renewables are defined in these Regulations as “renewable non-fossil energy sources, that is, wind, solar, geothermal, wave, tidal, hydropower, biomass (biodegradable fraction of products, waste and residues from industries such as agriculture, and forestry, as well as the biodegradable fraction of industrial and municipal waste), landfill gas, sewage treatment plant gas and biogases.

Renewable Guarantee of Origin (REGO):

Introduced in 2003, The Electricity (Guarantees of Origin of Electricity Produced from Renewable Energy Sources) Regulations 2003 were produced in response to the EU Renewables Directive. This regulation implemented a certificate system that allows producers of renewable-sourced electricity eligible under the EU Renewables Directive to be issued with evidence. One REGO is provided per KWh of electricity produced that is renewable by the producer to prove their electricity is renewable. The scheme provides generators a means of proving their green credentials within EU Member States. The certificates have no actual monetary value themselves.

Renewables Obligation (RO):

Introduced by the Government in 2002, the RO is the primary means to support the development of renewable technologies in Great Britain. It is a market based mechanism that requires electricity suppliers to source a percentage (increases every

year) of their electricity sales from eligible renewable sources. In 2006/7 suppliers must source 6.7% of their supply from eligible renewables and this percentage will rise to 15.4% by 2015/6 and remain at that percentage until 2027. Companies can meet their obligation in one of three ways, which are: presenting Renewable Obligation Certificates (ROCs); paying a buy-out fund contribution equivalent to £33.24 MWh in 2006/07 and rising each year with RPI; or, through a combination of the two.

Renewable Obligation Certificates (ROCs):

Under the RO scheme, companies can prove that they are meeting their obligations by presenting ROCs. ROCs are issued to accredited renewable generators for each 1MWh of eligible electricity generated; generators can sell them to electricity supply companies.

Appendix 6 - Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

Andrew MacFaul
Consultation Co-ordinator
Ofgem
9 Millbank
London
SW1P 3GE
andrew.macfaul@ofgem.gov.uk