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Dear Clair & Hannah,

## **Consultation on Developing Guidelines for Green Supply**

We welcome the opportunity to provide comment on the above. This response can be treated as non-confidential.

### **Review of the Guidelines**

We fully support a review of the Guidelines for Green Supply. It is reported that “green” electricity is sold more than once and two consumer reports have highlighted considerable customer confusion and mistrust. Arguably this should come as no surprise, legislation is complex and has evolved over a number of years such that there is no consensus across the industry as what constitutes a valid “green” offering;

Developing appropriate and effective Guidelines is no trivial exercise as the workshops have shown. However, the process has prompted much discussion and thought in this area, such that although further work is required we believe a framework can be put in place which provides customers with the necessary confidence whilst not restricting innovation or the development of what is a relatively immature market.

To achieve this, in our view, requires a re-think of the current mechanisms and in particular evidence of supply. We have explored this further in the sections below and outlined an initial proposal.

### **Developing the Guidelines**

#### Q1 What should Ofgem’s role be in terms of providing guidance on green supply tariffs?

Energy suppliers now offer a range of products to the environmentally aware customer. Some tariffs will include an element of renewable or low carbon supply, but others may even include no element of renewable or low carbon supply and instead the “environmental aspect” in its entirety may well be capable of being provided by someone else other than an energy supplier.

The carbon market and carbon offset market is much broader than the energy market and Ofgem's jurisdiction does not cover all aspects of these additional services offered by suppliers over and above the *supply element*. We therefore think Ofgem's Green Supply Guidelines should require suppliers when making specific environmental claims associated with a particular tariff to separate the *electricity supply element* from any other product or service offered as with telecoms or water.

We do not think that this will restrict innovation in any way. A supplier can still offer customers additional environmental services over and above the supply element of the offering and choose an instrument such as for example retiring ROCs or LECs which comes under the management of the energy industry (see question 8 for our thoughts on additionality). Equally a supplier will still be able to offer for example brown supply with say a carbon offset scheme or a green fund and market these products as providing a benefit to the environment (although this product will not come under the scope of Ofgem's Green Supply Guidelines). However, by always separating the "supply element" from these other services this is recognising that:

- Customers do still see *supply of energy* as the main service offering of an energy supplier and when a supplier makes an environmental claim the potential customer should be provided with information on the electricity supply;
- Ofgem has a duty to regulate the energy supply aspect of any product offering;
- In the interest of a competitive market, as energy suppliers we should not be placing ourselves in a privileged position compared with non-energy suppliers offering the same product such as carbon trading or any other environmental product;

#### Q2 Should the guidelines be mandatory or voluntary?

Suppliers will have a market-based incentive to comply with the Guidelines so it should not be necessary to make them mandatory.

#### Q3 Should tariffs to non-domestic customers be covered by the guidelines?

It is absolutely essential that the rules around evidence of supply are consistent across all customers if we are to ensure that one unit of renewable electricity is sold only once. We therefore fully support the inclusion of the non-domestic market within the proposed Guidelines.

#### Q4 Should tariffs involving non-renewable non or low carbon technologies be included with the guidelines?

We agree that the Guidelines should be extended to cover low carbon technologies. Low carbon technologies do have a role to play in terms of reducing carbon emissions in the UK. Extending the scope of the guidelines would be consistent with the overall aim of providing the more environmentally aware customer with confidence in what they are buying.

We tend to think one set of Guidelines perhaps with separate sections would be preferable, because there is linkage and it would seem sensible to develop one document rather than two to ensure consistency.

#### Q5 Should suppliers include additional information on customers' bills to support the achievement of transparency?

All customers provide financial support to the development of renewable technologies and promotion of carbon reduction. This is direct via the Renewable Obligation, LECs etc or indirect via increases transmission costs and losses, BSUOS etc. Customers obviously don't have a choice, but it would be in the general public interest to provide transparency with regards the financial contribution a customer is making towards environmental issues.

With regards choosing a product offering environmental benefits, we see that there are three distinct aspects of a transaction that a customer should be interested in when:

- Firstly; the nature of the power being used to back the supply. This is important as the whole purpose is to allow customers to select a preferred carbon footprint of their underlying power. This can be evidenced by the REGO or the carbon content.
- Secondly; the nature and corporate responsibility of the company providing them with the services. Customers may wish to discriminate against those who are fundamentally taking the environment very seriously and those who are paying lip service to it by acquiring on the open market products to offset their underlying poor carbon position.
- Finally; what over and above the basic product is being offered or supplied. This is the most interesting area and is loosely being described as "additionality". It is not possible to demonstrate that an additional MWh of electricity has been generated as a result of a customer signing a particular tariff. Unfortunately this is what customers expect to see. What you can demonstrate and prove is that as a result of signing up for a particular scheme there is a change in financial flow which within a normal market context will induce a change in behaviour. Thus all actions in this category are of a fiscal basis in a normal competitive market. The broad scope of additionality is covered in question 8.

We do not believe that suppliers should be required to provide this information on the customer's bill, but it should be readily available.

#### Q6 Should an agreed standard of evidence be defined and, if so, what should this be?

Yes it is essential that a standard of evidence is agreed. We believe for renewable supply it is the REGO and for low carbon it is generator declarations.

In terms of the renewable market a re-think of the application of the available certificates is required.

We would therefore like to propose that the certificates are used to demonstrate the following:

- Renewable Obligation Certificate (ROC) - "evidence of a subsidy";
- Levy Exemption Certificate (LEC) - "evidence of a tax exemption";
- Renewable Guarantee of Origin (REGO) - "evidence of renewable generation".

We do not believe that this is inconsistent with the current legislation. However, we do think there will be some changes required to associated Guidance documents such as for example DEFRA's Guideline for Company Reporting on Greenhouse Gas Emissions which states that "a zero conversion factor can only be applied if your company has entered into a renewables source contract with an energy supplier, that has acquired Climate Change Levy Exemption Certificates (LECs) for the electricity supplied to you as a non-domestic electricity consumer". We would appreciate some advice in this area.

The REGO thus becomes the ONLY recognised evidence of renewable supply.

Suppliers can still choose to retire LECs to demonstrate a change in a financial flow which they believe provides additionality (though we don't believe it does see question 8). However with the introduction of REGOs we do not believe that the LEC can be used as evidence of renewable supply and the concept of using LECs or REGOs + LECs to evidence renewable supply should in the interests of clarity be dropped.

Under this system, suppliers will in theory be able to offer three products:

- Renewable supply backed by REGOs – if the customer is liable for CCL then they will continue to be charged CCL and this will need to be made clear;
- Levy exempt supply backed by LECs – this is in effect a tax instrument and the customer is simply purchasing relief from CCL. It will be made quite clear that this is not a renewable electricity supply.
- Renewable supply backed by REGOs and CCL relief backed by LECs – this is currently what some non-domestic customer get now.

This will provide a straightforward mechanism which will be transparent and readily verifiable:

- All customers will associate REGOs with renewable electricity generation;
- CCL paying customers will no longer associate LECs with renewable energy supply. This visibility together with a certification/accreditation scheme for checking whether a supplier holds a sufficient number of REGOs should prevent multiple selling;
- Non-CCL paying customers will not be restricted from participating fully in the market. The system will be the same for everyone, so domestics and SMEs will have an equal opportunity to participate in the market;

The value of the REGO is determined by the market and it is currently perceived to have very little in the way of value. This may be a feature of market evolution or possibly some suppliers view REGOs only as a mechanism for supporting fuel mix disclosure. However, if it is accepted that the REGO is the only recognised evidence of supply backed by renewable generation then it follows that the value of the REGO will be determined by whatever premium the market associates with renewable energy.

If multiple selling does indeed exist then in theory this means by implementing this system you are creating a shortage of REGOs and thus their value should increase. The market will create a financial pull on REGOs which will lead to an increase in their value.

It would certainly be interesting to monitor. If the REGO does have value then by purchasing accredited renewable supply, the customer is providing direct funding in to the renewable electricity generation market. We do not believe the value of ROCs and LECs will change by implementing this system. Therefore the purchase of REGOs will be providing *additional* funding.

We do not see anything wrong in principle with describing nuclear as low carbon. However, some customers will have strong views on this technology so it needs to be made very clear if this is included in the low carbon offering.

We do think there probably needs to be some kind of system for reconciling REGOs and Generator Declarations such that when assuming an average mix in the Fuel Mix Disclosure there is no double counting.

Q7 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?

There would need to be some kind of mechanism to enable banking of REGOs to account for the unpredictable fluctuations in demand and generation. We would suggest the CCL system of balancing and averaging units over two years should be used.

Q8 Is Renewable Obligation Certificate (ROC) retirement an appropriate indicator of additionality?

In answering this question, we would like first to consider whether supply of renewable energy in itself constitutes “additionality”. If the industry was to adopt the scheme outlined in question 6, then we see the REGO as having a value above its current level. This increase will potentially make a project more attractive and in the longer term could lead to more renewable generation being built. Thus when a supplier offers the customer a renewable or low carbon supply, then they could also provide the customer with further information on the environmental difference their purchase might make.

If the Guidelines are to set a minimum bar of what constitutes a renewable or low carbon offering within the context of the electricity industry, then there may be merit in viewing them simply as ensuring that when a supplier offers a customer a renewable or low carbon supply this is what they get.

Suppliers can still offer customers additional services over and above the supply element of the offering and this can come in an unlimited number of forms, from investment in generation, the purchase of carbon credits, the planting of trees, cancellation of LECs, retirement of ROCs or investment into a Green fund, etc. Information on these extras will be provided to the customer. It is possible that some of these additional services may be regulated by an independent body either now or in the future. But if the supplier chooses an instrument which is specific to the electricity industry such as for example ROC retirement, then this could be certified under the industry accreditation scheme

ROCs have always been evidence of *financial* subsidy with no requirement on the supplier to purchase the associated generation or indeed the ROC itself. Retirement of ROCs will increase the value of the Buy Out Fund. But as a direct result those suppliers who don't retire ROCs will get a greater share of a larger pot and we believe there is no evidence to suggest that this additional money will be fed back into the renewable generation sector or any other environment projects. Similarly it is not clear that there is an indirect benefit i.e. value of ROC will increase as suppliers will predict an increased buy out fund.

Retirement of LECs in the domestic market rather than selling them into the Non-Domestic market purely as a tax instrument means that less LECs are presented than originally issued. The customer will be thus paying for a LEC (somewhere in the order of £4.41 per MWh) which is not used and the tax revenue to the Treasury will be higher. There is no guarantee that this results in additional funding to the renewable generation sector or any other environmental project.

Q9 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?

As described earlier we see this as outside the scope of the Guidelines.

Trust that these comments are helpful. This letter outlines are thoughts and suggestion, but we look forward to an on-going dialogue. Should you wish to discuss further, then please do hesitate to get in touch.

Yours sincerely,

Keith Munday  
Commercial Director