

7 August 2007

Phillipa Pickford  
Ofgem  
9 Millbank  
London SW1P 3GE

Dear Phillipa,

## **DEVELOPING GUIDELINES FOR GREEN SUPPLY - KEY ISSUES**

British Energy is the UK's largest low carbon generator of electricity, producing around one fifth of the UK's electricity requirements. It owns and operates the UK's eight most modern nuclear power stations with a combined capacity of approximately 9600MW together with the 2000 MW Eggborough coal-fired power station. British Energy plays a major part in helping the UK meet its emissions targets. In 2006/07 our nuclear stations avoided the emission of 33.7 million tonnes of CO<sub>2</sub> (MtCO<sub>2</sub>) that would otherwise have been emitted had the same output been generated by fossil fuel stations. This is equivalent to removing around half of the cars from the UK's roads. British Energy is also one of the largest suppliers of electricity to the UK's industrial and commercial sector.

It is in this context that British Energy welcomes the opportunity to comment on Ofgem's proposals to revise its 2002 guidelines for suppliers in relation to green tariffs, as set out in the above consultation paper dated 4 June 2007.

A copy of this response has been sent to Victoria Willis at the Energy Saving Trust.

### **KEY POINTS:**

- **These guidelines should equip consumers to make informed choices about how they deal with the challenge of climate change. It is important that customers be encouraged to choose how they achieve emissions reductions, from the full range of options available.**
- **Ofgem should facilitate an approach based on attributes and not technologies. Only this way will carbon abatement be delivered at the least cost to the consumer. The guidelines should not “pick winners”.**
- **The guidelines should focus on the issue of climate change and the contribution that can be made from all low and near zero carbon technologies. We have strong reservations about factoring in other criteria.**
- **The carbon emissions indicator should be defined according to carbon emissions intensity (gCO<sub>2</sub>/kWh), which would be broadly consistent in approach with the fuel mix disclosure. The suggested “demonstration of additional benefit” will only**



**propagate existing confusion in this area and distort the market away from the least cost carbon mitigation options.**

- **In order to facilitate market forces in favour of technologies that have the greatest overall environmental benefit, the guidelines should use a lifecycle impact assessment protocol, instead of the ‘at the point of generation’ mechanism currently used for the fuel mix.**
- **The guidelines should define minimum standards and not prevent suppliers from being innovative in providing additional information.**
- **Non-domestic customers may require more detailed information than domestic consumers. Quantitative data on the emissions intensity (gCO<sub>2</sub>/kWh) would facilitate comparison between suppliers and would also align with company reporting requirements such as CSR reporting.**
- **Clarification is required on what is meant by additionality. In any event ROC cancellation is not equivalent to or as effective as genuine green funds or allocation of supplies because it does not demonstrate additionality. In addition, ROC cancellation will be exceptionally costly to consumers.**
- **The selection process for the scheme administrator and / or accreditation body must be competitive and efficient and suppliers must be involved in all stages of the process.**

## **DETAILED POINTS:**

### **Status of the Guidelines**

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

The challenge of tackling climate change is a significant one and everyone must play their part. We therefore welcome Ofgem’s intention to facilitate greater clarity for electricity consumers by developing these guidelines. The guidelines must remain focused on the issue of climate change and the contribution that can be made from all low and near zero carbon technologies.

Ofgem’s role is to protect consumers. In principle, Ofgem should provide leadership and oversight to ensure customers have confidence in the green / low carbon market. This will involve developing a set of guidelines which ensure that customers are provided with transparent, credible, comparable and easily understandable information which allows them to effectively and confidently distinguish between different supply offerings in respect of their contribution to tackling climate change.

The approach to the guidelines must be to improve clarity for consumers and therefore where possible the guidelines should be broadly consistent and compatible with other initiatives. Ofgem has an important role in ensuring this consistency. Critically, fuel disclosure labels present CO<sub>2</sub> emissions on a per kWh basis and therefore the proposed guidelines should mirror this in their treatment of CO<sub>2</sub> emissions.



Ofgem must ensure that the accreditation process represents best value for customers. To do so, it will be important that the selection process for the scheme administrator and / or accreditation body is competitive and efficient and suppliers must be involved in all stages of the process. Moreover, the incorporation of any administrator's own perspectives should be strictly excluded deferring to Ofgem as the owner and custodian of the scheme and policy.

*Q2 Should the guidelines be mandatory or voluntary?*

In line with Better Regulation Principles, regulation should only be introduced where there is a clear case to do so. Initially at least, the guidelines should therefore be voluntary.

Furthermore, the guidelines are being modified in response to a need identified by consumers, who are voluntarily seeking certain types of supply products. In recognition of this bottom up approach Ofgem should initially introduce voluntary guidelines rather than imposing mandatory requirements.

### **Scope of the Guidelines**

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

In principle the same issues with green supply offerings apply in the domestic and non-domestic sectors. However, non-domestic customers and their suppliers will almost certainly have different requirements and expectations in this regard than domestics, so the Guidelines would probably need to be different for the 2 sectors, or at least flexible enough to accommodate this.

In particular, non-domestic customers are likely to require more detailed information than may be necessary for domestic consumers. For example, quantitative data on the emissions intensity (gCO<sub>2</sub>/kWh) would facilitate comparison between suppliers and would also align with company reporting requirements such as CSR reporting or submissions to the Carbon Disclosure Project.

In line with the industry standard carbon footprint assessment protocols used in CSR and Carbon Disclosure Project reporting, the total environmental impact of the generation technology should be assessed using a 'cradle to grave' approach incorporating the carbon-cost of construction, mining, generation and decommissioning etc., rather than simply assessing the emissions during the period of supply. This is not only a more consistent approach, but will support the use of market forces to incentivise suppliers and generators towards the most efficient and cost effective methods of reducing CO<sub>2</sub>.

*Q4 Should tariffs involving non-renewable non or low-carbon technologies (including Good Quality CHP, clean coal and possibly nuclear) be included within the guidelines?*

Ofgem should aim to facilitate an approach based on good market principles without arbitrary definitions or barriers. Only this way will carbon abatement be delivered at the least cost to the consumer. The guidelines should therefore be technology neutral. It is not appropriate to "pick winners" in terms of climate change mitigation options.



The primary purpose of the green guidelines should be to ensure that customers can effectively and confidently distinguish between different supply offerings in respect of their contribution to tackling climate change. It is therefore imperative that the guidelines apply a consistent set of principles to all forms of low carbon generation. Good Quality CHP, clean coal and nuclear should therefore certainly all be included.

### **Content of the Guidelines**

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

The guidelines should set minimum standards but allow suppliers to be innovative in how they provide additional information. Indeed, this could be one of the factors taken into account in accrediting a particular offering.

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

Yes, standards are necessary, but they should be 'minimum' standards.

The content of the guidelines should be consistent with the intention of the DBERR's fuel mix disclosure, in that it is about educating the consumer, but in recognition of the evolution of the debate and the convenient availability of approximations (ref. Parliamentary Office of Science and Technology: Postnote 268 October 2006), these guidelines can now be developed to include the more accurate and meaningful lifecycle analysis.

*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?*

Not necessarily. The appropriateness of the evidence may vary depending on the type and path of the supply. In any event, Fuel Mix Disclosure is a backward looking high-level requirement that does not currently inform customers about their individual future supply offering.

Customers should be equipped to assess the impact on climate change that the tariff they purchase is making. This makes the carbon intensity expressed in gCO<sub>2</sub>/kWh the most effective mechanism for comparing tariffs.

However, the total environmental impact of the generation technology should be assessed and therefore in our view the lifecycle impact should be used instead of the 'at the point of generation' mechanism that is used for the DBERR's fuel mix disclosure.

As previously stated we believe that this approach would be consistent with the overall aims of the fuel mix, but in recognition of the development of the debate and the convenient availability of approximations (ref. Parliamentary Office of Science and Technology Postnote 268 October 2006), they could now be developed to assess lifecycle analysis.

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



ROC retirement is not an appropriate method of demonstrating additionality for green tariff or supply offerings. This is because ROC retirement would merely result in increased use by suppliers of the buyout facility with consequent costs to consumers. Indeed, this and similar practices such as EU ETS allowance retirement, are prime examples of the sort of practices from which customers should be protected. Moreover, the question itself implies that the concept of additionality is in serious danger of being inappropriately applied and /or misconceived; therefore clarification is required on what is meant by additionality.

We believe that additional green/low carbon generation should be encouraged through fair and equitable market drivers. The demand for these types of supply will create the incentive for new generation. It is neither necessary nor desirable to attempt to track additional supply from each individual product. This would create an arbitrary distortion in the value of supply from existing and new technologies, even if they were to have the same attributes. It would also introduce complexity in this area and therefore propagate confusion.

*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 include?*

Yes, there should be such rules. They should have regard to the risks associated with project development.

## **ACCREDITATION SCHEME: INITIAL PROPOSALS**

### **Third Party Accreditation “Star Rating” Scheme: Application of the scheme**

*Q1 Do you agree with Ofgem’s view that an “at a glance” mark is appropriate for green tariffs?*

An “at a glance” mark may be appropriate, particularly if it is along the lines of the clear and well established presentation of energy efficiency for white goods – perhaps using a simple A-G scale (as set out in 6 below). However, this should be presented as a ‘minimum standard’ and compliance with the guidelines should not prevent suppliers from adding additional specific clarifications and explanations that allow customers to look at emissions in more detail .

As discussed under Question 3 in the previous section, non-domestic customers may require more detailed information than domestic consumers. For example, more precise quantitative data on the emissions intensity would facilitate comparison between suppliers and would also align with company reporting requirements such as CSR reporting or submissions to the Carbon Disclosure Project.

While our view is that there should be a single set of guidelines that cover all low carbon tariffs, both renewable and non-renewable, we accept that a separate set of guidelines assessing whether a tariff is 100% renewable based on presentation of REGOs could be appropriate . In our view, if these separate guidelines are to genuinely inform consumers, any tariff that qualifies as renewable should also be required to disclose the carbon intensity, based on a lifecycle analysis (gCO<sub>2</sub>/kWh), allowing direct comparison will other tariffs that are not 100% renewable.



*Q2 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?*

Yes, the accreditation scheme should allow tariffs to be ranked.

### **Initial Criteria for Assessing the Star Ratings**

*Q3 Is it appropriate for the accreditation rating to distinguish between carbon and other environmental benefits?*

It is important to keep in mind that climate change is the fundamental driver for growing interest in this area. The carbon emissions over the lifetime of the generation technology must therefore be the main element, and we have serious doubts about whether the other environmental aspects should be included.

However, any inclusion of other issues should place emphasis on genuine unmanaged or unmanageable impacts. Care should be taken not to treat managed waste products as environmental impacts if this is not the case.

*Q4 How should the "stars" be allocated in respect of the carbon indicator and for other environmental benefits?*

We do not consider that a star rating system should be adopted. As discussed above, climate change is the fundamental driver for more transparency in this area. Carbon emissions must therefore be the main element, and we have serious doubts about whether any other environmental aspects should be included at all.

*Q5 Do you agree with the proposed criteria for the different stars put forward by Ofgem?*

Carbon intensity should be the focus for any proposed criteria. In particular:

- The carbon emissions indicator should be defined according to carbon emissions intensity over the lifetime of the technology (gCO<sub>2</sub>/kWh). The suggested demonstration of additional benefit will only propagate existing confusion in this area. Furthermore, by specifying specific and arbitrary factors to improve the rating the market would be distorted towards these options and potentially away from the least cost carbon mitigation options.
- Care should be taken in the definition of efficiency, if this is to be used as a criterion. Thermal efficiency may be appropriate for comparing power stations of the same technology type but has little meaning in comparing technologies with different fuels.
- If waste is to be considered, care is again required. Waste is not the same as environmental impact, since certain wastes are managed and prevented from reaching the environment. For example, a coal power station will produce a certain amount of SO<sub>2</sub> in its flue gases, but if it were fitted with FGD equipment then most of this would be captured. If waste is to be used as a criterion then it should be recognised that where management arrangements/abatement technologies exist this waste is prevented from reaching the environment.



Q6 What alternative criteria could be used?

The inclusion of carbon content should be based on an agreed and rational methodology. As discussed above, we do not support the stars proposal or the proposed criteria. Instead, a simple banding approach based on carbon intensity could be adopted that would separate the main emitters into discrete categories. Building on the success of the ‘at-a-glance’ scheme successfully adopted for white goods in the European Union, this could be developed into a simple A-E banding with as an illustration:

Banding	Range (gCO <sub>2</sub> /kWh)	Example technologies potentially included *
A	0-30	Wind farm, nuclear, hydro
B	30-100	Marine, photo-voltaic
C	100-250	Carbon capture and storage, good quality CHP
D	250-500	CCGT Gas and other CHP
E	500+	Coal / Oil / Gasoil

\* Source: Parliamentary Office of Science and Technology Postnote 268 October 2006)

Q7 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?

Yes we agree with all of the above. In addition the scheme should have regard to the differing requirements of domestic and non-domestic customers.

### Funding of the Scheme

Q8 Do you agree with Ofgem’s view that the scheme should be funded by suppliers?

Yes. However, suppliers will need to be confident that the process represents best value for them and their customers. The selection process for the scheme administrator and / or accreditation body must therefore be competitive and efficient and suppliers must be involved in all stages of the process. Moreover, the incorporation of any administrator’s own perspectives should be strictly excluded deferring to Ofgem as the owner and custodian of the scheme and policy.

Yours sincerely,

David Love  
Head of Regulation and Compliance

Direct Line: 01452 653325  
Fax: 01452 653246  
E-Mail: [david.love@british-energy.com](mailto:david.love@british-energy.com)

Copy to - Victoria Willis, Energy Saving Trust