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Office of Gas and Electricity Markets
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1 August 2007

Dear Ms Hogg/Ms Cook

Developing Guidelines for Green Supply – consultation

Thank you for the opportunity to comment on this important initiative.

The Association supports Ofgem's activity in this area believing it to be a very necessary intervention to bring clarity for producers, suppliers and consumers in an area of the market where the industry has not been able to do so. As such we see it as Ofgem's role to establish a workable, transparent set of guidelines with the industry can then implement and eventually manage itself.

The mechanism for doing this should be kept as clear and easy to administer as possible. In our opinion it therefore should:

- be simple and clear for consumers to use and utilise the wider understanding they have of star ratings for other goods and services;
- focus on the emissions elements of electricity supply rather than other wider considerations; and
- utilise wherever possible existing mechanisms for administration and demonstration of compliance.

We believe that the proposals set out by Ofgem broadly fulfil these objectives, and work should be undertaken to implement them quickly. However, we have particular concerns that any broadening the guidelines to cover elements other than emissions will make them more complex to establish and administer, not least because doing so is likely to entail more subjective, value judgments, which we think where possible should be avoided.

Our response to the consultation questions is set out on the following pages. It is a combined response to the Ofgem and EST consultations. I hope it is of interest to you and would be pleased to develop further as required.

Yours sincerely

Philip Piddington

Director

Responses to consultation questions

Chapter 2. Developing the guidelines - key issues

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

Ofgem's role should be limited to the leading an industry process, which will culminate in the establishment of formal guidance on green supply offerings and an oversight role ensuring that any body nominated to manage them fulfils its role properly.

Question 2: Should the guidelines be mandatory or voluntary?

The guidelines should be mandatory. Suppliers should be required also to disclose to customers any particular offerings which are non-compliant.

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

The guidelines should apply to non-domestic and domestic sectors.

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?

Yes. The guidelines should apply to offerings relating to output from all technologies which are not large-scale, conventional fossil fuel, including higher efficiency coal generation without carbon capture and storage. They should therefore include nuclear and CHP, and have scope to evolve to include any large-scale lower-carbon, fossil fuel generation involving carbon capture and storage.

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

Yes. But it is important that any scheme does not become burdensome for suppliers to administer. Bills should include any ratings awarded through the scheme with directions where the consumer can find further information. The annual fuel supply mix statement may be developed to incorporate reference to any guidelines which emerge. [They might also include costs of compliance with the EEC/CERT.]

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

Agreed standards of evidence should be defined and as far as possible should relate to already established mechanisms like Rocs, Lecs and Regos for which eligibility is defined. If it is decided to include nuclear and carbon capture and storage, which we think desirable, mechanisms will need to be defined to capture their output. The arrangements should emphasise the additionality compliant offerings compared with commitments consumers are already meeting under the renewables obligation.

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?

We support this proposal, and believe 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. In this way, the scope for double counting should be minimised.

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

We believe the electricity guidelines should focus in the first instance on simplicity. As such for electricity supply, additionality from renewables generation should be its primary focus and the mechanism to assess this needs to be as simple and transparent as possible. We also believe that Roc retirement is the simplest, most transparent means of demonstrating such additionality, as the consumer would be committing to use more Rocs than the proportion mandated under the renewables obligation. Moreover, Roc retirement proportionate to different levels of a consumer's demand offers a means of grading additionality consistent with different ratings within any guidelines.

We therefore support Ofgem's initial view that Roc retirement is the most appropriate means of demonstrating additionality. Whilst we recognise that Roc retirement by increasing the value of the buyout fund will increase the cost to all consumers, we do not believe such an increase will prove material in the short term at least.

We believe there is scope for carbon-offset recognition as additionality in gas supply, and a mechanism needs to be established to measure this appropriately, perhaps involving certified emissions reductions (CERs) or EU emissions trading scheme allowances (EUAs).

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?

Clear rules need to be established for additional funds raised through compliant green offerings. In our opinion, one of the advantages of Roc retirement as evidence of additionality is simplicity of auditing any funds collected with the ability to use Ofgem's established Roc register as a compliance tool. The register could be evolved to incorporate the numbers and value of retired Rocs and suppliers should then be obligated to demonstrate holding, and legitimate use of equivalent funds through an independent audit process. Legitimate use of funds would be their reinvestment in new build or upgraded Roc or Lec eligible generation assets (i.e. not used to finance corporate acquisitions) within the United Kingdom.

We believe similar principles can be established for verification of CER and EUA holdings, as applied to gas supply offerings, as noted above.

Initial proposals - independent accreditation scheme

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

Yes. We agree that an "at a glance mark" is appropriate, but believe its use should at all times be accompanied with directions where consumers can find more information about the mark's meaning. The grading currently applied to the energy efficiency of energy appliances might represent a useful starting point.

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?

We are inclined to the view that a star rating should be used as this will allow greater differentiation. We believe consumers will be interested in grading Roc-eligible renewables, other renewables, good quality-CHP and other non-scale fossil fuel technologies.

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

In the first instance, we believe it is important that the scheme is simple to implement and for consumers to understand. It should therefore focus on carbon emissions benefits first and thereafter renewables benefits.

Specifically with regard to nuclear, we do not believe separate account need be taken in any scheme of waste liabilities if a ratings hierarchy were used of:

- low carbon;
- connection to the distribution system rather than the transmission system entailing reduced losses;
- Lec eligibility;
- Roc eligibility; and
- Roc additionality.

This is because as nuclear would be the only significant eligible technology to be captured in the first group but not by any of the others. More on our thoughts on star awards is below in our response to question 6.

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

The stars (or grades or bands) should be awarded based on emissions reduction benefits and whether they accrue to locally connected renewables/low carbon generators eligible for receipt of Regos, Rocs or Lecos. Apart from allowances for nuclear and, in the future, carbon capture and storage, no other criteria should be considered as this would increase scheme complexity and entail specific judgements to be made by the scheme administrators.

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

We believe the criteria put forward by Ofgem are un-necessarily complex and risk politicising the scheme further by forcing new judgments to be made about the environmental benefits of particular technologies.

Question 6: What alternative criteria could be used?

As far as possible we believe propositions should be graded according to the use made of established low carbon support mechanisms in providing them. Equal weighting should be accorded to each and they should be awarded as follows:

- low carbon emissions as measured by Rego eligibility, good quality CHP or verified nuclear output or other definition as may be agreed for CCS (more than 50% from eligible generation) – 1 star
- power produced by low carbon plant connected to the distribution system – 1 star
- Lec eligibility (from more than 50% Lec eligible generation) – 1 star
- Roc eligibility (from more than 50% Roc eligible generation)– 1 star
- additionality as evidenced by Roc retiral – 1 star

Therefore a maximum of five stars would be awardable and the maximum ratings would demonstrably be a premium offering. This arrangement which would have the advantage of familiarity from hotel gradings.

Alternatively the stars could be converted to some ratings so that 5 stars=A, 4 stars=B, etc.

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?**

We agree with Ofgem's view of the scheme's proposed coverage.

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

We agree that the scheme should be funded by suppliers in absolute proportion to the number of accounts they serve in the business and domestic markets. Allocating costs by account numbers rather than volume is suitable as the scheme is targeted at individual decision-makers be they a householder or a larger industrialist.