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Monday, 6th August 2007

Dear Philippa

Consultation - Developing Guidelines for Green Supply

E.ON welcomes Ofgem's consultation on Developing Guidelines for Green Supply.

The guidelines should be voluntary and we believe if they are properly constructed they will act as a catalyst for a vibrant market in renewable and low carbon supply. The guidelines must enable customers to confidently buy into any renewable or low carbon product. The key features of the guidelines therefore need to be;

- Transparency – customers should know the generation technology supporting the product and its fit, if any to the Suppliers Renewables Obligation
- Verification – that the Supplier has evidence; to support claims, and of sufficient supplies to meet the demand of its renewable customers.

The renewable guidelines should facilitate “additionality” but must not mandate it. Additionality in whatever form will increase the cost of renewable supply products. To mandate additionality at an arbitrary level could severely depress the level of customer take up because of the premium over conventional tariffs. In our view forms of additionality should be points of product differentiation leaving customers to choose the additionality, if any that suits them.

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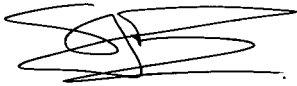
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We are supportive of a certification scheme which validates the verification of Supplier claims but whilst this should be “fit for purpose” it must not be overly bureaucratic or costly to administer. Where possible the certification scheme should use existing codes e.g. Advertising Standards Authority and “piggy back” existing processes e.g. verification by company financial or CSR auditors.

I have attached as an annex our responses to the questions posed in the consultation document.

We welcome the approach adopted by Ofgem in seeking to develop the guidelines further and we will continue to support this process.

Yours sincerely

A handwritten signature in black ink, appearing to be 'S Russell', written over a horizontal line.

Steve Russell
Regulation Manager (Consumer & FSA)

CONSULTATION ON DEVELOPING GREEN GUIDELINES
RESPONSE BY E.ON UK PLC

CHAPTER TWO

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

Ofgem's role should be encouragement for the industry to produce guidelines which enable the development of a healthy green market in which customers can participate with confidence.

Question 2: Should the guidelines be mandatory or voluntary?

The guidelines should be voluntary. It is our belief that if guidelines are pitched appropriately most suppliers will sign up to the guidelines as they will wish to market their products with the stamp or mark associated with guidelines. Equally, if customers have confidence in the guidelines they will seek products which carry the mark driving any remaining non-compliant green products into "retirement".

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

Separate guidelines should apply to non-domestic customers. Additional regulations apply to the supply of renewable electricity to non-domestic customers. Inevitably these customers are more sophisticated and have different requirements. To try to capture both sectors in one set of guidelines will make them over complicated and probably more bureaucratic. The two sets of guidelines should however be complimentary to ensure that double counting is avoided.

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

Separate guidelines should cover low carbon products. Given the interest in green issues some customers will wish to purchase renewable only products as opposed to low carbon which may include nuclear. The guidelines surrounding a nuclear tariff or good quality CHP could be very different to that for an off shore wind farm. The two guidelines can have separate badges e.g. renewables mark and a low carbon mark. This could mean that renewable products carry both marks. It is probable in the future that renewable products will be priced differently to low carbon products because of the differences in generation costs. The use of two separate marks at different price points will support the development of both markets

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

No. Suppliers have a range of obligations arising from their licences e.g. EEC, treatment of vulnerable customers and treatment of customers in debt, etc which have costs associated with them. It is not clear that there are obvious benefits in treating the Renewables Obligation differently. The costs of introducing additional information on the bill will be significant and disproportionate to any perceived benefit.

The most important time when customers need transparency about a product is when they are choosing the right product for them.

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

The evidence of renewable supply should follow the fuel mix disclosure regulations and therefore we support the use of REGOs or generator declarations (in the case of low carbon products). We believe that evidence that a Supplier has purchased sufficient REGOs (or generator declarations) to meet renewable sales should be provided by its company auditors or other independent third party.

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?

Yes.

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

The consequence of ROC retirement is that renewable generators will probably receive more money than they would have done. There is no evidence that it actually leads to any additional renewable generation. However, ROC retirement can show that a supplier is doing something more than their legal obligation under the RO. In reality ROC retirement is a difficult concept to explain to domestic customers and to create marketing claims around as evidenced by the ASA adjudication against RSPB Energy & Scottish & Southern Energy plc (23/02/05).

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?

Given the problems of creating additionality through ROC retirement it is likely that more products will use funds and the projects they support as the means of differentiation. We agree that it is important therefore there should be rules around transparency and verification. The rules should require;

- transparency around the type of projects which will be supported
- separate audited accounts
- verification that the funds have been correctly allocated.

CHAPTER THREE

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

Yes, the mark should be instantly recognisable, whilst distinguishing between renewable and low carbon products.

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?

The accreditation scheme should not rank tariffs, if it did it would inevitably be judgmental (given that the scheme should not stifle innovation) and bureaucratic (submission of products for approval involving submission of evidence, etc). The accreditation scheme should be simple involving;

- transparency – technologies supporting the product and imagery to match
- verification – through an independent third party that the supplier holds sufficient REGOs to meet renewable sales in the period and has retired any associated LECs if the product is being sold into the domestic market to avoid potential for "double counting".

To use the badge associated with the accreditation scheme the supplier must agree to follow these simple rules.

A carbon intensity qualifying level will need to set for Low Carbon tariffs e.g. <250 g/kWh (proposed in the Low Carbon workshop). For non-offset products the carbon intensity may be benchmarked against generation types or historical performance rather than requiring ongoing evidentiary support.

Question3: Is it appropriate for the accreditation rating to distinguish between carbon and other environmental benefits?

It is essential that there is a distinction between low carbon and renewable electricity. Customers will want to be able to distinguish between low carbon and renewable products therefore they should have separate badges. Other environmental benefits are likely to many and varied and the accreditation scheme should not try to evaluate them. Suppliers are likely to use other environmental benefits as a means of differentiation and will market accordingly.

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

We don't believe the "star" system is appropriate we prefer the use of simple badges to identify products which are renewable and/or low carbon. The star system as proposed would inevitably mean some subjective ratings against incomparable criteria resulting in a rather meaningless system which demonstrates neither carbon credentials nor sustainability effectively.

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

The example star system shows how difficult it is to provide clear comparative information through a rating system. The proposal can result in different types of products receiving similar ratings because of the subjective nature of the criteria. The scheme suggests that the long term waste impact of nuclear generation has equal value to the transmission losses of an offshore wind farm, for instance. We do not believe that customers will find this credible. For this reason, we prefer simple badges for low carbon and renewable products.

Question 6: What alternative criteria could be used?

We do not believe the star system should 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?**

We believe there should be separate guidelines for low carbon and renewable technologies reflecting the very different nature of the generation and the regulation. In addition it is preferable that guidelines for renewable technologies are split between the requirements for domestic and non-domestic markets reflecting the difference in regulation and reporting requirements for non-domestic customers.

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

No. The scheme is voluntary and should not therefore impose significant costs on suppliers. The initial set up of the scheme and promotion should be funded by government to give credibility to the badges. Ongoing administration costs for the scheme should be funded on a product basis by those Suppliers who use the badges.

3. Additional questions:

How many stars should be allocated to tariffs specifying renewable technologies where no Additionality is demonstrated?

As previously stated we don't support the star system.

What percentage of ROCs should be retired in order to demonstrate additionality?

We do not believe ROC retirement is a particularly effective measure of demonstrating Additionality. As previously stated it is just a means of paying more money to renewable generators than they would have received under the RO.

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?

We do not believe presenting excess ROCs in a compliance period is an effective means of demonstrating additionality its effect is to probably pay renewable generators more money and does not necessarily lead to additional generation.

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?

We do not support the concept of 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?

In our view this question demonstrates the flaws in the star system. It will become very bureaucratic and time consuming involving assessment of evidence submitted by Suppliers to experts. A simple mark demonstrating verified supply and transparency around claims is all that is required.

What percentage of carbon should be offset to attain each carbon star?

The level of offsetting should be transparent to customers e.g. 100% carbon offset, or 50% carbon offset. These claims will be part of the product features and made clear to customers in marketing and product fulfillment. There is no need for carbon stars.

What other objective criteria could be used to assess the carbon impact of a green supply tariff?

None

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?

No. This is making the scheme far too complicated and would introduce another threshold, the level losses at the star/no star logo boundary. In addition, transmission losses are of no net environmental impact where zero carbon generation is concerned,

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?

No. Once again this is making the scheme far too complicated and beyond what is required. Efficiency is only comparable in environmental terms when other aspects of generation are identical i.e. comparing two otherwise identical windfarms but not a CCGT and a wind turbine.

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?;

To include lifecycle issues associated with nuclear waste within a scheme such as this would be highly subjective and it is unlikely that an agreed position would be attained. Any disagreement in this area could cause significant negative comments on the scheme which could impact in customer confidence.

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?;

As carbon dioxide is currently the most prevalent of the green house gases (GHG) it should be the primary focus of the low carbon scheme. To widen the scheme to include the impact of other GHGs would introduce yet more complexity into the scheme. We do not support the inclusion of other GHGs in the scheme at this stage.

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?

No it is not appropriate for issues to be associated with visual amenity or the impact on surrounding wildlife to be assessed within this scheme. Such items are very subjective and it is unlikely that stakeholders could reach a consensus view.

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?

No. The primary purpose for the use of renewable energy is reduction in carbon emissions. Carbon emissions reduction can be objectively assessed. It is difficult to consider what other recognition it could be given other than on a very subjective basis. As previously stated efficiency is not itself a direct or easily comparable measure of environmental performance.

Are there any other criteria that should be included to assess the environmental benefits of the green supply tariff?

No. Suppliers wishing to include additional environmental benefits in a product can use these as a source of product differentiation and makes claim consistent with ASA codes accordingly.