



Clair Hogg
European Strategy and Environment
Ofgem
9 Millbank
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Dear Clair

Developing Guidelines for Green Supply

We welcome the opportunity to respond to Ofgem's consultation on developing guidelines for green supply. This is a timely and much needed consultation and we fully support Ofgem's efforts in redesigning the guidelines (and establishing a framework for a verification scheme) to meet the needs of customers.

We are committed to designing and developing new products and services which will help our customers reduce their carbon intensity. As part of our Climate Commitment (see attachment) we are aiming to achieve a 60% reduction in carbon intensity from our electricity production by 2020. We will also reduce the proportion of CO₂ arising from our customers' energy consumption by 15% by 2020 by offering a variety of products which will allow our customers to reduce the CO₂ associated with their gas and electricity usage. We believe the guidelines and the establishment of a quality mark will enable our customers to become active participants in meeting the climate challenge.

We welcome the new proposal to broaden the scope of green supply to include low carbon technologies. Customers are beginning to recognise that energy from renewable sources is not the only solution in reducing their environmental impact; but more needs to be done in this area. We believe customers will benefit from this new classification and, designed well, the verification scheme will assist them in making sustainable choices. Although we see clear benefits from off-setting, we do not advocate the inclusion of off-setting at this stage.

We agree that transparency is very important in ensuring customer confidence in green supply offerings. We envisage that a simple quality mark, encompassing set standards outlined in the guidelines, will provide the necessary assurance needed by most customers. Discussions at the workshops seemed to suggest that there was a need for

multiple badges; we prefer a single quality mark. The climate challenge is about moving towards a lower carbon economy and energy from renewable sources is only part of the solution. What is needed is a single quality mark which can communicate this message effectively to customers. We see energy from renewables as a subset of low carbon offerings.

For renewables, we agree with Ofgem that there is no need to set a strict definition for additionality, as this will stifle product development. In a competitive market suppliers will look to differentiate their offerings and provide customer choice. However, suppliers must also rise to the challenge and ensure that their products do not simply repackage their Renewables Obligation as a renewables tariff. In this regard we believe suppliers must demonstrate additionality for a renewables tariff to qualify for the quality mark as well as being evidenced by REGOs and LECs. For other low carbon offerings, we do not believe there is a need to demonstrate additionality.

Our response to the key themes explored during the workshops is provided below. Although we recognise that the debate has moved on from the published consultation, we also respond to the specific questions raised in the consultation for completeness. We see this as the beginning of a longer term dialogue we will be having with you and look forward to presenting our views bilaterally and, as requested, volunteer to become one of your business partners in developing the second consultation.

Should you wish to discuss the matter further or have any queries please contact my colleague Mari Toda on 07875 116520 or me on the number below.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Linford', with a long horizontal flourish extending to the right.

Denis Linford
Director of Regulation

EDF Energy response: Developing Guidelines for Green Supply

Introduction

We are active in the green supply market and currently offer EDF Energy Green Tariff, a renewables tariff with an additional fund-based element designed to develop renewable generation in community and education projects. As part of our environmental product offerings, we also offer Climate Balance, an off-setting product that allows residential customers to reduce the impact of CO₂ emissions associated with the gas and electricity they use in their homes (and SMEs in respect of the electricity they use). In the I&C market (where we see most demand for green energy products), we offer both renewables and CHP levy exempt contracts to meet the needs of our customers. We have also begun to offer ROC retirement products and offsetting via EUA retirement services to business customers.

With a rise in environmental awareness and changes in legislation/new proposals that favour low-emission companies, many businesses are trying to reduce their carbon footprint. A study by Datamonitor found that in the I&C market alone, customers want to buy 34TWh of electricity from renewable sources in 2007, three times the 12.2TWh of accredited renewable electricity produced in the UK in 2006. Demand for energy from renewable sources is there; we now need to ensure that the guidelines do not inadvertently restrict the development of further renewables by setting rigid rules. In addition, we need to raise the profile of low carbon alternatives to meet the climate challenge.

An area that requires further debate is the treatment of renewables and low carbon in the I&C market. Defra's current consultation on the Carbon Reduction Commitment (CRC) suggests that electricity from renewable tariffs cannot be zero rated. One of the objectives of the CRC is to incentivise behavioural changes and Defra does not believe zero rating renewable tariffs would achieve this. Defra's GHG reporting guidelines states that a zero conversion factor can only be applied if an organisation has entered into a renewables source contract with an energy supplier that has acquired LECs for the electricity supplied. Earlier last month, Defra attempted to change the guidelines to make ROC retirement mandatory to companies wishing to apply the zero conversion factor. The final decision must be consistent across the board to avoid confusion and enable customers to make informed decisions. More importantly, an open discussion must take place before any decision is made.

We have put the needs of customers at the heart of our response:

- Making REGOs and LECs the evidence of supply for renewables will ensure that there is no double selling of the same electricity in the domestic and non-domestic markets. This will also reduce market distortions and increase the demand for renewables and low carbon energy.

- Making additionality a requirement will raise the minimum bar and lead to the development of innovative products and generation of new renewables.
- Our commitment to promote transparency and provide more information will allow customers to make informed choices.
- Our support for a simple scheme will help build consumer confidence.
- Broadening the guidelines to include low carbon technologies will enable customers to participate in the climate challenge more effectively.

For ease of reference, we will use the term green supply to encompass renewables and low carbon product offerings in our response. However, in terms of the structure of the new framework, we very much see renewables as part of the low carbon family. We explain our vision and rationale below.

Evidence of supply

In order to verify that the renewable electricity supplied was generated from a renewable source, we agree that the electricity must be backed by a REGO. Additionally, the LEC must not be separated and reused in the non-domestic market.

The reason it is not sufficient to use REGOs as evidence of supply is because, owing to the lack of explicit prohibition, suppliers can still separate the LEC and offer it as a stand alone product in the non-domestic market. This practice distorts the market and increases consumer mistrust of the system. We strongly recommend that Ofgem put a stop to this practice by ensuring REGOs and LECs cannot be separated.

Additionality and ROC retirement

During the workshops, some have suggested that all renewable tariffs should result in the generation and supply of additional renewables. Others have suggested that the retirement of ROCs should also be a prerequisite. Although we agree that additionality must be demonstrated for a product to qualify as a renewable tariff, the guidelines should refrain from being prescriptive, as this will inhibit innovative product development. We agree with Ofgem that the guidelines should not limit the forms of additionality and that the onus should be on the supplier offering the product to explain and subsequently be able to verify the claim of additionality (as defined by Ofgem) in a straightforward manner.

With respect to the retirement of ROCs, it may increase the signals to invest in renewable technologies and lead to the development of further renewables. However, it needs to be recognised that ROC retirement is only one of many options for demonstrating additionality and it would be wrong to mandate the retirement of ROCs on all suppliers. If ROC retirement is mandated as the only benchmark for additionality, it could result in a perverse outcome whereby customers proactively opt to purchase non-certified renewable tariffs. This is because the cost of certified tariffs will include the cost of retiring ROCs which many

customers are currently not prepared to pay. To address this issue, suppliers may provide a competing, lower cost product (without ROC retirement and hence without a quality mark) that meets the needs of the majority of customers. In this respect, it would seem inappropriate to design a scheme to meet the needs of only a small proportion of customers.

Keeping it simple

We agree with Ofgem that the guidelines should set minimum standards for green supply provided by companies who have signed up to the guidelines. Voluntary guidelines should lead to better regulation and encourage maximum flexibility for suppliers in relation to the development of green supply. However, this will only be possible if the guidelines avoid being overly prescriptive or complex. Guidelines could always evolve to meet future needs; keeping it simple at this stage will be key to its success.

During the workshops, it was suggested that multiple guidelines and quality marks may be necessary. We disagree. Although we recognise that different criteria may need to apply between residential and business customers, it should be possible to do so in one set of guidelines. For example, key principles could apply to both sectors and different sections could be developed to address specific needs. Similarly, it should be possible to structure the low carbon guidelines to include renewables as a subset of low carbon offerings. (If a distinction needs to be made between renewables and other low carbon offerings for the benefit of customers, this could be achieved easily by using different coloured quality marks.) Our objective is to minimise confusion; that is why we do not advocate extending the scheme to other environmental offerings such as off-setting in the domestic market at this stage. Keeping it clear and simple is the only way to build consumer confidence.

We believe that the key principles of the guidelines should apply as best practice in the I&C market but we are not persuaded that it needs to go any further. Since we engage in bilateral negotiations with our larger I&C customers, we are confident that our customers know exactly what they are purchasing when they purchase renewables and LEC backed products from us. Similarly, it is not clear how the quality mark will be awarded for individually negotiated bespoke contracts. Many of our customers purchase a mix of energy, e.g. 20% from renewable sources, 30% from good quality CHP, and 50% from brown, to meet their individual needs. Would each contract need to be verified by the scheme administrator? This is an area which requires further debate before we can support the proposals.

The low carbon guidelines and verification scheme

We welcome Ofgem's proposal to include low carbon offerings within the scope of the new guidelines. The Government has a goal to achieve a 60% reduction in carbon emissions by 2050 and to make real progress towards this target by 2020. These offerings, in addition to renewables, can help Government achieve its goal. Although customers are beginning to understand that there are alternatives to renewables, the profile of all low carbon offerings needs to be raised to deliver a clearer message to customers.

During the workshops, Ofgem introduced the concept of requiring suppliers to provide information regarding the carbon emissions associated with brown tariffs as well as their low carbon offerings. Despite providing assurance that it was not the intention to mandate fuel labelling by product, we believe that that will be the end result. Given that this consultation is about green supply and there is no legal basis to mandate fuel labelling by product, we suggest that this requirement, if adopted, is restricted to low carbon offerings (including renewables). There is nothing, however, to stop suppliers from providing this information voluntarily for their other tariffs.

In terms of what constitutes a low carbon offering, the carbon intensity of the products was discussed at the workshops. We suggest using CO₂/kWh of GQCHP (which is currently defined as 0.295 CO₂ in Defra's guidelines for GHG conversion factors for company reporting) as the benchmark or cut-off point. We suggest that any product with a carbon intensity less than or equal to GQCHP qualify for the low carbon badge.

Although we have an important role in helping our customers become more energy efficient and providing product options that assist them in reducing their emissions footprint, we believe that this should be done independently of this scheme. Our prime objective here is to design a scheme that will build consumer confidence in green supply. Ensuring that the scheme remains simple will be key in achieving that objective.

The three key approaches to reducing CO₂ that we advocate are, in order of importance, reducing energy consumption, investing in low carbon technologies and then off-setting. We see energy efficiency as the first choice and off-setting as a last resort. That emphasis cannot be captured in a quality mark that is being designed for a different purpose. Additionally, off-setting is and should continue to be available to all customers; including it as part of a low carbon offering will be confusing as well as misleading to some customers.

We responded to Defra's recent consultation on carbon off-setting and believe that the establishment of a code will reassure customers purchasing offset credits that reductions have been verified and originate from a trusted source. These offset credits

could be associated with a quality mark but we do not envisage that it will be the same quality mark that will be established as part of this scheme.

Provision of further information

We agree that transparency is very important in ensuring customer confidence in green supply offerings. We have listened to various criticisms in the media about the lack of transparency in the green supply market generally and have made the description of our green supply offerings, particularly renewables, as transparent as possible. We do not exploit the commercial opportunity of double selling and ensure REGOs and LECs are used only once. In addition, we have set up a dedicated green team to answer any green queries from customers.

Although we agree that transparency is key to allowing customers to make an informed decision when considering supply offerings, suppliers should not be mandated to provide further information on bills. We already have considerable information on our bills as a result of regulatory requirements and to include further information would not add any value to our customers. On the contrary, it is likely to lead to further confusion. The majority of our customers simply want to know that our products meet a certain standard and the quality mark(s) should fulfil this role. Our green team is also here to answer any further queries.

As stated in the consultation, the guidelines should set minimum standards for green supply. The provision of additional information and its format should be left to the discretion of suppliers. The UK has one of the most competitive energy markets and it is in suppliers' interest to meet the needs of their customers. We commission research, employ experienced customer experience managers and organise focus groups (including customers) to understand the needs of our customers. We should be able to communicate to our customers in the way our customers are asking us to communicate.

It should also be noted that our new bills provide graphical consumption data which allows customers to compare their average daily usage (both electricity and gas) from this quarter to the previous quarter and also to the same quarter last year. We decided to produce this graphical representation to encourage customers to proactively control their energy consumption and participate in the climate challenge. The design of the graphs was developed with our customers; we ensure we communicate to our customers in the way they want us to communicate to them. This was done without regulatory intervention and Ofgem should allow this approach to flourish.

Third Party Accreditation and the EST

We support the establishment of an independent third party verification (as opposed to accreditation) body. This party should not judge the merits of green supply offerings or rank them, but should be available as an independent verifier of the claims made by suppliers. Other parties such as NGOs or consumer groups may choose to endorse or rank offerings based on their own criteria.

We prefer having one verification body. Multiple bodies will inevitably lead to increased costs and this will not be in the best interests of customers.

The EST is one possible scheme administrator but, to ensure customers get value for money, the role should go out to tender. Although we agree that suppliers should pay for the on-going cost of running the scheme, we believe that government has a role to play in supporting the establishment of such a body which can be also be used as a vehicle to engage with customers regarding the Government's low carbon ambitions and to promote general awareness of low carbon energy issues.

Annex – Responses to specific questions raised in the consultation

Questions from Chapter 2

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

As a regulator, Ofgem's role should be focussed on protecting customers through the promotion of competition. As stated in the consultation, the guidelines should set minimum standards for green supply. Ofgem should therefore provide guidance in determining these minimum standards and allow suppliers to differentiate themselves through providing features additional to the minimum requirements.

Ofgem's efforts in creating a forum for discussion and debate are also appreciated.

Question 2: Should the guidelines be mandatory or voluntary?

The guidelines should be voluntary. It should also be noted that detailed, onerous guidelines will restrict the development of innovative products and deter suppliers from signing up to the guidelines.

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

Although we agree that the key principles of the guidelines should apply to non-domestic customers (as best practice), the guidelines at this stage should only apply to domestic customers. If the guidelines are high level and not overly prescriptive, then we may conclude that they could apply to the non-domestic sector. Until we have more visibility of the final guidelines (the one attached to the consultation is too prescriptive), we would not advocate extending the guidelines to the non-domestic sector.

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?

Yes. It may lead to confusion by designating low carbon offerings as green but we do not see any reason why renewables cannot be part of the low carbon guidelines. We recognise that some criteria might not apply to both classifications but this can be overcome by creating separate sections.

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

We agree that information should be clear and transparent but are strongly against putting information on bills and statements. Additional information may help alleviate consumer

confusion but it has to be presented in an appropriate manner and at relevant stages of our customer contact points. In our view, it will be more beneficial to provide the information on our website, where it can be updated easily in a cost effective manner. (Bill redesign is an expensive and time consuming process.) We have also set up a dedicated green team with the capability to answer all green-related matters including issues such as fuel labelling and the mechanics of off-setting. Suppliers should be allowed to decide how they wish to communicate with their own customers.

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

Yes, standardising evidence of renewable supply would increase transparency, reduce the risk of double counting, and increase consumer confidence. If carbon intensity is measured, standardised guidelines could be introduced to measure the intensity of different methods of generation. For renewable tariffs, REGOs should be used as evidence of supply, as the REGO definition covers all forms of renewable generation unlike the LEC and ROC definitions. However, where a renewable generator is also eligible under the renewable CCL exemption mechanism, the LEC should be tied with the REGO to demonstrate renewable supply and to avoid double counting.

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?

Where synergies exist, the same requirements could apply. There is, however, a complication in that LECs are balanced on a two year basis. It should also be noted that this is a voluntary scheme so the administrative burden should be kept to a minimum without jeopardising the integrity of the scheme.

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

ROC retirement is only one of several options to demonstrate additionality. If certain suppliers want to use ROC retirement as an indicator of additionality, it should not be prohibited.

If a supplier's offering makes a claim of ROC retirement, this needs to be demonstrated in a transparent manner. The ROC registry provides a facility for this, although we understand that parties have had difficulty in using it. Although the registry can accommodate the retirement, as opposed to redemption, of ROCs against a suppliers RO, it does not show it in the most straightforward manner for customers. To enable the information to be clearly understood by a consumer the total amount of ROCs retired would need to be shown against the total product supply volume.

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?

Yes. The supplier should make the purpose of the fund clear and ensure that it is kept separate from other funds. Suppliers should also indicate how the fund will be used.

Questions from Chapter 3

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

Yes. We also prefer the use of a single quality mark. A simple quality mark will be key in minimising cost and consumer confusion.

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 support the establishment of an independent third party verification body. This party should not judge the merits of green supply offerings or rank them, but should be available as an independent verifier of the claims made by suppliers. Other parties such as NGOs or consumer groups may choose to endorse or rank offerings based on their own criteria. The basic criteria should be based around carbon intensity (the government measure), and any additional features that suppliers wish to add should be explained by them.

The verification scheme (e.g. quality mark) should only demonstrate that the supplier conforms to the minimum standards set by the guidelines i.e. pass or fail. However, we believe the requirement of additionality should be included in the minimum standard. By doing so, suppliers will not be able to simply repackage their Renewables Obligation. It should then be up to the supplier to demonstrate additionality and communicate other key features of its offerings in a clear and transparent way to both verifier and consumer. The customer can then make his or her own choice.

The danger of bringing in a ranking system is that we will end up creating a complex scheme which the market is not ready for at the moment. Undoubtedly third parties like uSwitch will attempt to rank tariffs. The benefits will not outweigh the costs of creating and administering such a complex scheme. Our key message is to keep it simple.

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

As stated above, we prefer a simple quality mark to a rating system. We do not support Ofgem's proposed star rating scheme because it is subjective and to some extent misleading. We believe the verification scheme should be kept simple.

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

We do not support Ofgem's star rating scheme for the reasons described above. We believe Ofgem recognised the lack of support for its proposal during the workshops.

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

No, we do not support the star rating scheme for the reasons described above.

Question 6: What alternative criteria could be used?

We are interested in exploring whether the quality of additionality can be measured objectively and incorporated into the scheme. However, we will only support its introduction provided that it is simple and transparent.

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?

Although we believe that best practice should apply in the I&C market, we are not persuaded at this stage to extend the scheme to that market. We welcome the proposal to extend the scheme to low carbon technologies. Although we acknowledge that there are benefits to be gained by including other environmental tariffs, we are concerned that this may cause unnecessary confusion especially in the domestic market. In this regard, we prefer to keep off-setting as a separate scheme.

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

We agree that the on-going cost should be funded by suppliers but the government has a role in administering the tender process. As explained in our main response, it would not be in the best interest of customers to appoint the EST without considering other alternative providers.