energywatch
your gas and electricity watchdog

Developing Guidelines for Green Supply

An Ofgem Consultation

energywatch response

Key points

- The guidelines and accreditation must be two elements of the same scheme, and be based on the principles of transparency, additionality and verifiability. The aim of the scheme must be to protect the interests of consumers and to promote sustainable development.

- The scheme should cover renewable energy tariffs for domestic and non-domestic consumers. These include tariffs based on renewable electricity, 'green' investment funds and carbon offsets or a combination. It must be closely linked to the Fuel Mix Disclosure regulations.

- The benefits of the tariffs must be measured in accredited CO2 emissions reductions using a Government-approved methodology.

- There should be no separate guidelines for tariffs based on 'low carbon' generation. They will add complexity and create confusion for consumers. The Fuel Mix Disclosure requirements exist for suppliers to declare the CO2 content of their individual tariffs and total supply.

- The guidelines should set a minimum level of acceptable practice which all suppliers must comply with. The accreditation scheme should identify, measure and reward only those tariffs that can clearly demonstrate additional benefits measured in terms of validated CO2 emissions reductions. There must be no double counting of CO2 emissions reductions.

- The scheme must be supported by an external climate change body to provide expert advice and validation. It is essential that Defra remains closely linked to the scheme as its sponsor, and that there are common assumptions between the carbon offset and green tariff guidelines and accreditation schemes.

- The minimum requirement in the guidelines for all renewable electricity tariffs, both domestic and non-domestic, must be the retirement of REGOs and LECs, except in respect of large-scale hydro. This is the only way double-counting will be eliminated and is already established practice among suppliers. Without this requirement only electricity generated from large-scale hydro sources will be available for domestic consumers

- The retirement of REGOs and LECs does not constitute additionality. No renewable electricity tariff should be accredited on this basis alone. Suppliers must make it clear that the renewable electricity is not additional in terms of validated CO2 emissions reductions.

- The most straightforward and transparent way for suppliers to demonstrate additional benefits from a renewable electricity tariff is for them to retire ROCs in respect of some or all of the electricity being supplied.

- Tariffs based on green funds may be considered additional if this can be independently validated in terms of CO2 emissions reductions. If the proceeds of a fund are invested in future renewable generation it will not be considered additional if it is eligible for ROCs or capital grants since the resulting CO2 emissions reductions would have taken place anyway and will be accounted for separately under the Climate Change Programme.

- For tariffs based on green funds to provide additional benefits, the proceeds must be invested in projects that would not have gone ahead anyway, and in respect of which the CO2 emissions would not have been counted separately under the Climate Change Programme.
- Tariffs based on green funds do not provide additional benefits if the proceeds are invested in other environmental projects unless they can be linked directly to CO2 emissions reductions, and this can be independently validated. Tariffs based on carbon offsets must comply with Defra's best practice guidelines.
- Defra should from time to time re-appoint the scheme administrator to run the scheme devised by EST and Ofgem. It may be the same body that administers the carbon offsets accreditation scheme and code of best practice.
- The scheme should be funded through licence fees with an additional fee payable by suppliers whose tariffs are accredited. Suppliers must be regularly audited to check compliance with the guidelines and accreditation scheme.
- The scheme should be backed up by the Unfair Commercial Practices Directive. The regulations that apply to misleading actions and omissions should provide the legislative backstop which would be enforceable by the Office of Fair Trading.

Overview of the market

1. There are currently eleven energy suppliers offering one or more of the three different types of green tariff (green source, green fund and carbon offset). energywatch has developed a green tariff guide to provide consumers with clear and standard information on the different types of green offering and to assist them in comparing them.[1] This guide is updated whenever new tariffs are introduced.
2. energywatch has however had to rely on the information provided by suppliers to develop the guide, and has not attempted to rate the tariffs on offer due to the fact that no accreditation scheme has been in place to verify the suppliers' claims about the "greenness" of their tariffs. Our experience of speaking to consumers, however, suggests that they are actively seeking information about how to choose a tariff which will have the most beneficial impact on the environment.
3. Since the energywatch guide and NCC report were published in December 2006, two companies, British Gas and Powergen, have introduced new or revised green tariffs, and an additional company, Utilita, has entered the market. The new tariffs introduced since December 2006 have all been 'combination' tariffs, incorporating both green source and carbon offset elements or green source and green fund elements.
4. All 10 suppliers offering green source tariffs are using REGOs as proof of supply.
5. Out of the current 11 green source (non large hydro) tariffs offered by eight different suppliers only two companies, Ecotricity and Utilita, are not retiring the LECs associated with the supply. British Gas, which did not retire the LECs associated with the supply of electricity to its Green Electricity customers, is now retiring LECs associated with its new Zero Carbon and Future Energy tariffs.

[1] *http://www.energywatch.org.uk/help_and_advice/green_tariffs/index.asp*

6. There are now three suppliers, British Gas, Good Energy and Scottish and Southern Energy, committed to retiring some of the ROCs associated with their green tariffs, over and above the statutory requirements.

7. There are now seven carbon offset tariffs offered by six different suppliers. Three tariffs use CER accredited schemes - British Gas Zero Carbon, EBICo Equiclimate and EDF Energy Climate Balance, while four tariffs use VER accredited schemes - British Gas Climate Aware, Powergen Go Green, Scottish and Southern Energy power2 and Utilita planetsaver 1. Out of the carbon offset tariffs introduced since December 2006, one is CER accredited and two are VER accredited.

Overview of main issues

1. For the UK to meet its greenhouse gas emissions reduction targets, and its new renewable energy targets, it must achieve the transition towards a more sustainable, decarbonised energy system. Given the complexity of climate change science, if businesses and households are to be fully engaged in this transition, they need clear and unambiguous information about the environmental consequences of the decisions they make.

2. energywatch therefore welcomes the opportunity to comment on Ofgem's proposed green supply guidelines and on EST's proposed accreditation scheme. In our view, the two must fit seamlessly together and form part of one cohesive scheme. The guidelines should set the clear benchmark for green tariffs while the accreditation should be a banded mark of excellence that sits above it.

3. Through the scheme Ofgem and EST have an important opportunity to increase consumer protection and make a positive contribution to a more sustainable energy system. For this to happen, they must ensure that the guidelines and accreditation are rigorous and unambiguous, setting a clear benchmark above which suppliers can compete to come forward with better and better offers. The experience of the Energy Efficiency Commitment shows that suppliers are capable of raising their game if they have sufficient incentive to do so.

4 To achieve this, it is essential that there is clarity of purpose and agreement between EST and Ofgem and that any policy differences are resolved. Defra needs to remain closely involved with the process and there should be strong links and common assumptions with the carbon offset code of best practice and accreditation scheme.

5. In energywatch's view it would certainly not be sensible to establish two competing brands or marks – one for the guidelines and one for the accreditation - as this will only increase confusion. Winning consumer confidence and recognition in a mark is very difficult. Any proposal therefore needs to be simple and should not require consumers to make judgements based on complex scientific information. Any mark must be thoroughly tested on consumers and stakeholders before it is introduced.

6. energywatch supports the proposal to have separate guidelines for domestic and non-domestic consumers so long as the basic principles on which they are based are common to both and they are closely linked.. The accreditation scheme should cover domestic and non-domestic consumers, although the criteria may be different for each, in line with the two sets of guidelines. The guidelines should apply to tariffs based on renewable electricity, 'green' funds and carbon offsets.

7. energywatch does not support the proposal to develop separate guidelines for tariffs based on 'low carbon generation' at this time. The Fuel Mix Disclosure requirements already provide a good framework within which suppliers can disclose the carbon emissions from their supply. In addition, other CO2 emissions reductions accreditation schemes, such as the Carbon Trust's carbon footprint label currently being piloted, could be adapted to include energy suppliers.

8. Suppliers are free to provide Fuel Mix Disclosure charts for individual tariffs so long as they are seen alongside the chart for the supplier's total supply. The Fuel Mix Disclosure guidelines are linked to the official CO2 emissions conversion tables which enable suppliers to work out the CO2 emissions from their fuel mix. Many already publish this information widely.

9. The Government's incentive programmes for renewable electricity mean it is unlikely that green tariffs will substantially increase renewable electricity capacity above business-as-usual scenarios. Yet many consumers think that, by signing up to a green tariff, they are buying additional renewable electricity. Because this view is widely held, it is very easy for suppliers to make false claims simply by not correcting the misapprehension.

10. The guidelines and accreditation must therefore ensure that suppliers' claims are accurate and do not mislead consumers as to what they are signing up to. They must also set high standards for tariffs based on green funds and carbon offsets which are the preferred route for many suppliers. The Government must inform consumers that they are already funding new renewable capacity through their electricity bills.

energywatch's preferred model

Guidelines and linked accreditation

1. Ofgem's green tariff guidelines should set out clear minimum standards to which all suppliers should be prepared to sign up. While the guidelines may be voluntary in nature, we would not expect there to be any suppliers offering a green tariff who did not sign up to them. Suppliers' tariffs should be audited on a regular basis to check compliance with the guidelines.

2. All suppliers who have signed up to the guidelines must be required to submit their tariffs for accreditation under the scheme. There should be separate guidelines for domestic and non-domestic consumers, based on the same fundamental principles, and the accreditation scheme should reflect these.

3. The accreditation scheme should identify only those tariffs that offer consumers quantifiable additional benefits in terms of CO2 emissions reductions. These must be transparent and independently validated. The calculation of CO2 emissions reductions must be based on a common methodology established and published by Defra. The accreditation scheme should contain a scale which would enable it to show a range of CO2 emissions reductions (for example using stars or letters of the alphabet) to allow consumers to choose from a range of different accredited tariffs.

4. The organisation running the accreditation scheme should have access to an expert body to verify the CO_2 emissions reductions from a new tariff. For example, this could be the Office for Climate Change, or the unit being established by the Climate Change Bill. (As a parallel, Ofgem has access to the Buildings Research Establishment to assess energy savings and CO_2 reductions from energy efficiency equipment as part of the Carbon Emissions Reduction Target.)

5. Accreditation should be seen as a mark of excellence to which all suppliers should aspire. All suppliers must submit their tariffs to the accreditation body. The criteria on which the accreditation is based should be progressively tightened as a driver for suppliers continuously to improve their tariffs.

6. The accreditation scheme being developed by EST on behalf of Defra could in future be administered by another body following an open tender process. Defra should take control of the process, as they have with the carbon offset code of best practice, and award the administration contract to the most suitable body from time to time. (As a parallel, the Buildings Research Establishment has been contracted by BERR to develop the Microgeneration Certification Scheme, but will not always be the body administering it once it has been developed.)

7. The scheme should be backed up by the Unfair Commercial Practices Directive. The regulations that apply to misleading actions and omissions should provide the legislative backstop which would be enforceable by the Office of Fair Trading.

Domestic consumers

8. For domestic consumers, there are four types of tariff that each require separate consideration within the guidelines and accreditation scheme. (Some tariffs are based on a combination of all four.)

   - tariffs based on renewable supply
   - tariffs based on funds used to invest in future renewable generation capacity
   - tariffs based on funds used to invest in other environmental projects
   - tariffs based on carbon offsets.

Tariffs based on renewable electricity

9. These tariffs require very careful design and marketing, with particular attention being paid to claims of additional environmental benefit. Suppliers must take care not to give consumers the impression that they are buying additional renewable electricity when they are not, and must inform them that they are already paying for renewable electricity through their bills.

10. As an absolute minimum the guidelines should stipulate that suppliers offering these tariffs **must retire REGOs and LECs in respect of all the electricity claimed as renewable** except if it is from large-scale hydro. However, suppliers must not claim that such a tariff offers additional environmental benefits.

11. The Research carried out by NCC and energywatch showed that, in late 2006, all but two of the suppliers were already retiring REGOs and LECs in respect of the renewable electricity component of their green tariffs as a matter of course. Any retreat from this accepted level of good practice will represent a major reduction in consumer protection since it will effectively mean that domestic consumers only have access to electricity generated from large-scale hydro sources. (Both REGOs and LECs must be retired for non-domestic tariffs as well, as otherwise this give a green light to double-selling.)

12. For suppliers to gain accreditation for a supply-based tariff, they must be able to demonstrate additional environmental benefits. The most transparent and straightforward way of doing this would be to **retire ROCs, as well as LECs and REGOs**, in respect of the percentage of electricity being described as renewable. Suppliers could choose alternative ways of demonstrating additional benefits, but for these to be the basis of accreditation, there would have to be clear, validated evidence of CO2 emissions reductions.

13. For each tariff suppliers should show the fuel mix disclosure chart for the individual tariff as well as for their total supply, and they should inform consumers that they are already contributing to renewable energy through their electricity bills to the level of the current RO target. Suppliers may also describe their strategy for meeting the RO, for example by providing a link to the RO annual report.

Tariffs based on funds used to invest in future renewable generation capacity

14. Many suppliers offer tariffs based on a fund the proceeds from which are invested in future renewable generation capacity. The guidelines should permit suppliers to offer these tariffs but they should not be eligible for accreditation unless CO2 emissions reductions can be clearly demonstrated and validated by a third party.

15. Investing in future renewable generation capacity that will be eligible for ROCs or capital grants does not demonstrate additionality since the CO2 emissions reductions would have taken place anyway, and will be accounted for separately under the Climate Change Programme.

16. Investing in projects that are not eligible for ROCs or capital grants, but which are renewable, could be considered as additional so long as the basis for the claims are carefully substantiated and the CO2 emissions reductions validated.

17. One example of such projects would be renewable heat projects that are not currently eligible for subsidy through a support scheme. Another could be projects which for structural reasons would clearly and demonstrably not have gone ahead without the investment.

18. Suppliers must not give the impression that these tariffs are based on the supply of additional renewable electricity, unless the conditions set out in the previous section are met. Rather, suppliers must make it clear that the electricity being supplied is only renewable to the RO level. So long as this is made absolutely clear, suppliers would only need to only retire LECs or REGOs to the level of the current RO target.

19. Suppliers should ensure that the funds are very transparent and independently audited. Consumers need to know up-front how much of their money is being invested in the fund, and how much the supplier is contributing. Consumers also require, for example in the form of an annual report, a clear statement of the outcomes that have been achieved

by the investments, in terms of CO_2 emissions reductions, and also in terms of new and innovative activity.

20. Where a supplier is investing proceeds from the fund in another division of the same company, it is essential that full information is provided to consumers about the amount that is being invested, and what the outcomes are. Consumers should also have access to the annual accounts, which should be audited to check the claims being made.

Tariffs based on funds used to invest in other environmental projects

21. The guidelines should permit suppliers to offer this type of tariff but they would not be eligible for accreditation unless CO_2 emissions reductions can be clearly demonstrated and validated by a third party.

22. Suppliers must not give the impression that these tariffs are based on the supply of additional renewable electricity unless the conditions set out in paragraphs 14 to 18 are met. Rather, suppliers must make clear that the electricity being supplied is only renewable to the RO level. So long as this is made clear in the marketing material, suppliers need only retire LECs or REGOs to the level of the current RO target.

23. Suppliers should ensure that the funds are very transparent and independently audited. Consumers need to know up-front how much of their money is being invested in the fund, and how much the supplier is contributing. Consumers also require, for example in the form of an annual report, a clear statement of the outcomes that have been achieved by the investments, in terms of CO_2 emissions reductions, and also in terms of new and innovative activity.

Tariffs based on carbon offsets

24. Tariffs based on carbon offsets must comply with Defra's code of best practice.

Non-domestic consumers

25. For non-domestic consumers green tariffs and individually-negotiated contracts will almost certainly include a renewable electricity component. This is because companies or other bodies that buy electricity backed by LECs can gain exemption from the Climate Change Levy. Tariffs may include other elements alongside renewable electricity. For example, suppliers may offer to offset the CO_2 emissions from a company's energy usage.

26. Renewable electricity supplied to non-domestic consumers should be backed by LECs and REGOs as an absolute minimum. LECs should be from renewable generation not from Good Quality CHP sources unless this is clearly specified in the contract. Suppliers should make clear to consumers that this electricity is not additional, but that it will be accounted for by the Government as part of the Climate Change Programme. Companies and other bodies should not claim that they have purchased additional renewable electricity in their advertising, public relations or corporate social responsibility materials.

27. The most transparent and straightforward way for suppliers to demonstrate that their their non-domestic tariffs are additional is to **retire ROCs, as well as LECs and REGOs**, in respect of the percentage of electricity being described as renewable. Suppliers could choose alternative ways of demonstrating additional benefits, but for these to be the basis of accreditation, there would have to be clear, validated evidence of CO2 emissions reductions.

28. Suppliers should show the Fuel Mix Disclosure chart for the individual tariff as well as for their total supply, and they should inform consumers that they are already contributing to renewable energy through their electricity bills to the level of the current RO target. Suppliers may also describe their strategy for meeting the RO, for example by providing a link to the RO annual report.

29. Tariffs are based on carbon offsets must comply with Defra's best practice guidelines. Where they are based on investment funds, they must comply with the requirements set out in paragraphs 20 – 29, above.

OFGEM'S CONSULTATION QUESTIONS

Part 1: Key issues

1. The rationale for Ofgem's guidelines is to regulate false and misleading claims about green tariffs. This is necessary to protect the interests of consumers and to contribute to sustainable development. To do this, the guidelines should set a clear minimum level of acceptable practice while the accreditation should be a banded mark of excellence that sits above it. The two must fit seamlessly together and form one cohesive scheme that applies to all suppliers offering a green tariff to domestic and non-domestic consumers.

2. In practice suppliers should have no choice but to sign up if they want to offer a green tariff. They are thus in effect mandatory. Further information is required as to how the ASA will interpret the guidelines and as to how Ofgem will audit, monitor and enforce compliance.

3. The guidelines need to set the ground rules against which green tariffs can be developed. These should set out a high minimum level of good practice. The accreditation should sit on top of the guidelines and only be awarded for genuine CO2 emissions reductions. It is essential that it is firmly rooted in the guidelines. They can be adapted to developments, for example on an annual basis.

4. Both the guidelines and accreditation should cover non-domestic consumers as well as domestic consumers. The two are so closely linked, and the policy on one has a strong influence on the other. They should apply to all tariffs, whether based on renewable electricity, 'green' investment funds or carbon offsets.

5. Neither the guidelines nor the accreditation scheme should extend to tariffs based on 'low carbon' generation sources. The Fuel Mix Disclosure requirements provide suppliers with a satisfactory route through which they can disclose the CO2 content of their individual tariffs and their total supply. In addition, other CO2 emissions reductions accreditation schemes, such as the Carbon Trust's carbon footprint label currently being piloted, could be adapted to include energy suppliers.

Part 2: Developing the guidelines – specific issues

Status of the guidelines

6. Since 2002 the energy supply industry has had the chance to regulate itself in providing green tariffs, and has signally failed to do so. Ofgem's intention to revise the good practice guidelines and to require suppliers positively to sign up to them is therefore welcome. However, this will not carry any weight unless the guidelines are rigorous and are monitored and enforced, and unless suppliers are audited on a regular basis. In energywatch's view, there are clear risks of moving to a self-regulation (and self-certification) scenario in the longer term. To be effective, it would still need to be audited, monitored and enforced by an independent third party.

Scope of the guidelines: non-domestic consumers

7. energywatch agrees that the guidelines should extend to non-domestic consumers for the reasons set out in the consultation. The guidelines would need to be different from the

domestic guidelines, but based on the same fundamental principles. The domestic guidelines should set out the following principles:

- Renewable electricity supplied to non-domestic consumers should be backed by LECs and REGOs as a minimum unless it is from large-scale hydro.
- Suppliers should make it clear to consumers that this electricity is not additional, and that they must not claim it as such in their advertising, public relations or corporate social responsibility materials.
- Only where it is also backed by ROCs can it be claimed as additional.
- Suppliers should provide consumers with information regarding the Renewables Obligation and may present Fuel Mix Disclosure charts for the individual tariff as well as for total fuel supply.
- Tariffs based on investment funds must make clear how much is being invested and in what projects. They must be independently audited and must not claim additionality unless these can be objectively demonstrated.
- Tariffs based on carbon offsets must comply with Defra's best practice guidelines.

8. The non-domestic guidelines should set out the following principles:

- Renewable electricity supplied to non-domestic consumers should be backed by LECs and REGOs as a minimum except where this is from large-scale hydro.
- LECs should be generated from renewable rather than from Good Quality CHP sources.
- Suppliers should make it clear to consumers that this electricity is not additional, and that they must not claim it as such in their advertising, public relations or corporate social responsibility materials. Only where it is also backed by ROCs can it be claimed as additional.
- Suppliers should provide consumers with information regarding the Renewables Obligation and may present Fuel Mix Disclosure charts for the individual tariff as well as for total fuel supply.
- Where tariffs are based on carbon offsets, these must comply with Defra's best practice guidelines.

Scope of the guidelines: non-renewable low-carbon technologies

9. The rationale for the guidelines is to regulate false and misleading claims about green tariffs. Suppliers have not to date made false or misleading claims about tariffs based on non-renewable low-carbon technologies. Instead they have tended to give consumers the misleading impression that their electricity supply is renewable when in fact it is not. energywatch therefore urges Ofgem to direct its guidelines to the complex set of issues that relate to renewable technologies rather than extending them further. This will maintain their focus and ensure that comparisons are being made on a like-for-like basis.

10. As far as renewable supply is concerned, there is already a distinction between 'dark' green and 'light' green as a result of the different definitions of renewable. This can cause confusion. Given that there is an EU definition against which tough targets have been set, and the use of several compliance certificates in the renewables market, it is sensible for the green supply element of the guidelines to reflect this. Otherwise confusion will increase rather than decrease.

Content of the Guidelines

Transparency

11. energywatch agrees that transparency is a key area of the guidelines. It is essential that consumers should understand exactly what they are signing up to, especially where they are paying a premium of any sort for it. This general principle applies equally to domestic and non-domestic consumers, though the transparency requirements differ to some extent.

12. energywatch supports Ofgem's recommendation that suppliers should declare the percentage of what the consumer is paying that is going to fund renewable generation. This should include the cost of the Renewables Obligation, and any payment for additional renewable generation over and above the RO target in the case of a tariff based on green supply.

13. For a tariff based on investment in future renewable capacity, suppliers should indicate precisely how much of what the consumer is paying will go to fund the investment, and what the outcomes of the investment are expected to be.

14. energywatch also supports Ofgem's recommendation that suppliers illustrate their green supply tariff by means of a Fuel Mix Disclosure chart, to be set alongside the Fuel Mix Disclosure chart of the company's overall supply which is required under the EU Internal Market in Electricity Directive. This information should be published on the website as well as in an annual energy statement to be sent with the bill, either by email or post.

15. energywatch supports in principle Ofgem's proposal that suppliers should indicate the amount of CO2 emissions reductions achieved as a result of being signed up to the green tariff. However, we urge caution. No CO2 emissions reductions will result unless the supply is backed by ROCs, LECs and REGOs beyond the RO target. The supplier must not claim to more than one consumer that they are reducing their CO2 emissions on account of the same unit of 'green' electricity.

16. A clear methodology for calculating CO2 reductions must be developed with Defra to back a proposal such as this, and suppliers' tariffs must be audited on a regular basis if consumers are not to be misled. There is also a distinction to be made between ex-ante and ex-post CO2 emissions reductions. Only ex-ante reductions should be permitted as a basis of such a declaration.

17. It will only be possible ex-ante to reduce CO2 emissions by means of a green supply tariff that clearly exceeds the RO target, taking account of a supplier's overall fuel mix. Tariffs that in part fund investment in future renewable capacity do not reduce CO2 emissions reductions ex-ante, and there are many serious issues regarding double counting which are extremely problematic. Carbon offsets only achieve ex-post CO2 emissions reductions, since the CO2 has been emitted and then this is later compensated for in another way.

18 energywatch urges Ofgem to require a similar level of transparency for tariffs based on green funds where the proceeds are invested in environmental benefits other than renewable electricity capacity. In the case of tariffs based on carbon offsets, it is important that consumers know what part of their emissions are being offset and how much they are paying to offset each tonne of CO2. In addition they need to know how much the company is charging for administration or other purposes, and suppliers should also inform consumers that they are complying with Defra's best practice guidelines in respect of carbon offsets.

19. For non-domestic consumers, energywatch proposes that suppliers make very transparent the basis on which they are supplying 'green' electricity. This should be backed by LECs and REGOs as a minimum. There must be strict limitations on the additionality claims that can be made in respect of these unless ROCs are also retired in excess of the RO target.

Evidence of supply

20. energywatch supports Ofgem's proposal that suppliers must hold REGOs in respect of green electricity supply they are selling. This links firmly in with the Fuel Mix Disclosure compliance requirements. However, it is essential that they also retire LECs, except in respect of electricity from large-scale hydro. In the research carried out by NCC and our ourselves in late 2006, only two suppliers offering green supply tariffs did not also retire the associated LECs in this way. There is now cross-industry acceptance that this is the minimum level of good practice which ensures that renewable electricity is not being sold to domestic and non-domestic consumers simultaneously.

21. energywatch insists that **REGOs and LECs must be jointly held for all green electricity supply tariffs in both the domestic and non-domestic market** except where the electricity is sourced from large-scale hydro. However, **these two certificates alone are not sufficient to prove additionality.**

22. To be clear, REGOs may be issued for all generation from sources specificed in the EU Renwables Directive, and these include large-scale hydro. REGOs are the most inclusive of the compliance certificates in respect of renewable generation technologies. REGOs are also mutually recognised throughout the EU and so any electricity generated elsewhere in the EU would be entitled to the equivalent of a REGO. Other countries, particularly EU applicant countries, have systems that are aligned with the EU system.

Links with Fuel Mix Disclosure

23. As explained above, energywatch considers it essential that both a REGO and a LEC must be held in respect of each unit of renewable electricity being supplied to a consumer, whether domestic or non-domestic. This is basic good practice, and does not present problems for suppliers almost all of whom are already doing this.

24. Without this basic safeguard the extent of double-counting of greenness will increase. energywatch stresses once again that holding REGOs and LECs in respect of renewable electricity, while necessary, is not sufficient to prove additionality. Only if the proportion of renewable electricity supplied by a company overall exceeds the RO target, and the ROCs are retired, can the green supply tariff be called additional.

Definition, measurement and standards for additionality

How standards should be set

25. It is essential that any claims of additionality be independently validated in terms of CO_2 emissions reductions over and above a business-as-usual scenario. Ofgem could provide examples of ways in which additionality can be claimed, though energywatch agrees that this does not need to be exhaustive. This is a good example of where the accreditation scheme should interface with the guidelines. The guidelines should set out the ground rules and then the accreditation scheme needs to assess an individual tariff against its claims of additionality.

26. The organisation running the accreditation scheme should have access to an expert body to verify the CO_2 emissions reductions from a new tariff. For example, this could be the Office for Climate Change, or the unit being established by the Climate Change Bill. (As a parallel, Ofgem has access to the Buildings Research Establishment to assess energy savings and CO_2 reductions from energy efficiency equipment as part of the Carbon Emissions Reduction Target.)

27. energywatch continues to support the retirement of ROCs to demonstrate additional renewable supply. energywatch accepts that there is a cost attached to retiring ROCs, but considers that this fairly represents the cost of this means of carbon abatement. With transparent information, consumers can decide whether to sign up to a green supply tariff or to install energy efficiency equipment, say. They need clear information if they are to be empowered to make these choices about their own carbon emissions.

Operation of funds

23. energywatch supports Ofgem's proposal in respect of any premiums payable over and above a standard credit tariff, or any other tariff that the consumer would otherwise have been entitled to. However, we consider that there is some confusion in this section between tariffs based on green supply and tariffs based on green funds.

24. All premiums should be clearly explained to consumers, and accounted for. Where these are to fund the retirement of LECs and ROCs, the costs should be shown clearly together with the amount that is being charged for administration or other purposes. The money should be kept separately, and independently audited.

25. For tariffs based on green funds there should also be a requirement for the funds to be kept in separate accounts, but this should not be contingent on a premium being charged. From the research carried out by NCC and energywatch it is clear that many suppliers do not charge premiums for their green tariffs. This can in fact add to the confusion in consumers' minds, since they are used to thinking that the cheapest deal on offer is the best. The proportion of the tariff that will be invested in the fund must be made clear in advance, together with any investment that the supplier will match. The arrangements for managing the funds must also be very transparent, including the schedule of investments and any return on them.

26. energywatch considers that, in the case of funds that are invested in future renewable capacity, the proportion of the tariff that will be used for funding future renewable capacity must be paid into a separate account at the outset, and independently audited, irrespective of whether or not a premium was charged for it.

27. Suppliers who invest a proportion of their profits into a generating company that is co-owned by the same group need to make very clear in advance what formula they will apply to making the investments, and what the minimum level of return on these investments is. In addition, suppliers must make public on their website their latest set of accounts showing details of the investment made and the dividends paid to shareholders.

28. It is in the interests of suppliers to own renewable generation plants since this vertically-integrated structure allows costs to be offset between the two businesses, for example costs associated with the balancing and settlement process and with agreeing power purchase agreements that include ROCs and LECs. It is therefore important that suppliers who invest in future renewable capacity acknowledge the economies of scale that such investment allows them, and the contribution that this makes to their profitability. They should also declare the future income streams they can expect from the renewable generation, whether from the RO, the CCL exemption for renewables or from capital grants.

Part 3: Initial proposals

26. energywatch strongly supports Ofgem's commitment to work closely with the Energy Saving Trust to develop an accreditation scheme linked to the guidelines. As outlined above, energywatch considers it essential that the guidelines and the accreditation scheme fit together seamlessly. energywatch therefore proposes that the guidelines set out a minimum level of good practice below which no supplier should go, while the accreditation scheme should recognise and reward best practice within this.

27. The guidelines could allow for suppliers to offer tariffs that do not demonstrate carbon emissions reductions, so long as they do not make false or misleading claims about them. In contrast, only tariffs that can clearly demonstrate additional CO2 emissions reductions should be accredited. This should be graduated rather than a pass or fail test, to allow for differing amounts of CO2 emissions reductions. It is essential, however, that consumers can readily understand the information and make comparisons between two different products on the basis of it.

Third party accreditation scheme

28. energywatch is strongly of the view that only one rating system is required. Given that the rationale for the guidelines and accreditation scheme is to increase consumer confidence and decrease confusion, energywatch cautions against the development of more than one symbol or rating system unless they are closely integrated. Experience from other schemes shows that it takes several years for consumers to recognise and understand such symbols and this task should not be under-estimated. energywatch agrees with Ofgem that the guidelines should form a basis for the accreditation scheme and that they should form a living document that can be updated in the light of developments.

29. energywatch strongly supports Ofgem's intention to test any proposed system thoroughly with consumer user groups to ensure that consumers understand the information being conveyed to them. Unless the rating system is user-friendly and readily understandable, it will not achieve the desired ends. energywatch suggests that the consumer testing should

also cover EST's proposed accreditation scheme. We welcome Ofgem's intention to work with energywatch and National Consumer Council on consumer testing. We look forward to early involvement in the development of the research programme.

Star rating system

30. energywatch points to the confusion that already exists in consumers' minds from comparing one renewable energy tariff with another. In our view this is a good reason not to introduce generation from other technologies into the accreditation scheme. The principal reason that energywatch points to is the difficulty in making objective claims about overall fuel mix. Since it is almost impossible to demonstrate emissions reductions from tariffs based on renewable electricity, it will be much harder to demonstrate emissions reductions from electricity from other sources.

31. In addition, these are not necessarily identified in the fuel mix disclosure chart, since a large proportion of the disclosure relies on the national average. In our view it is therefore unlikely that a meaningful assessment of CO_2 emissions reductions can be made. Where the tariff is part of a package of low carbon measures, the accreditation system should be in respect of the tariff and not the package.

Initial criteria for assessing the star ratings

32. energywatch is strongly of the view that a graduated rating system should compare the performance of each tariff against one metric or parameter. Therefore, energywatch can endorse the intention to rate the tariffs according to the amount of additional carbon emissions reductions that the tariff will deliver. However, the methodology for calculating this must be clearly set out, robust and rigorously audited. Very few of the tariffs currently on offer would achieve meaningful carbon emissions reductions when compared with a business-as-usual scenario.

'Carbon impact' indicator

33. For the reasons set out earlier in this response, energywatch does not accept that it is sensible to equate retired ROCs with investment in new renewable generation and carbon offsetting. The methodology would have to be closely linked to the guidelines which must make it very clear that retiring ROCs over and above the RO target is the only ex ante way to deliver additional renewable electricity generation. This cannot be compared with investment in new renewable capacity which is not additional, given that it will be counted against future targets. Nor can it be compared with other carbon offsets which are clearly ex post. This demonstrates the difficulties with weighting within one single parameter, which are magnified significantly with the introduction of more than one parameter.

'Environmental benefit' indicator

34. energywatch strongly opposes Ofgem's proposal that a second parameter be included, for example the environmental merits associated with the tariff. This would immediately render the system valueless since it would no longer be possible to rank the tariffs in a meaningful way and consumers would have to make their own assessments of the relative weighting between the two parameters. The example set out in the consultation shows this clearly. Both tariffs score four stars even though one is fuelled by natural gas and one by wind. In any case, a metric such as 'environmental merits' does not lend itself to quantification since there are so many diverse environmental advantages and disadvantages that will require careful assessment and weighting.

35. Even if the comparison between the two had only one parameter, it does not take account of whether or not the generation is additional to what would have been achieved under the RO or EU-ETS business-as-usual scenario set out in the Climate Change Programme. It would be difficult to say what the efficiency level of a CHP plant was without access to further information. The result is a rating that presents information in a banal and meaningless way, and that would increase consumers' confusion rather than reduce it. energywatch therefore urges Ofgem to abandon the rating system in favour of the accreditation symbol, which has a graduated element, based on letters or stars, within it.

36. Given that the majority of green tariffs currently on offer are based on investment funds, most of the criteria set out against which this second parameter would be judged are only relevant to those tariffs clearly based on green supply.

Administration of the scheme

37. energywatch agrees that the accreditation scheme should be run by an independent third party. However, if Ofgem is to maintain involvement with and ownership of the guidelines, it must be clear how the interface between the guidelines and the accreditation scheme is to be managed. Defra should appoint the scheme administrator from time to time by means of a competitive tender.

Funding of the scheme

38. energywatch proposes that the initial set-up costs for the accreditation scheme and its running costs be funded by licence fees. Once the scheme is up and running suppliers whose tariffs are accredited can pay an accreditation fee. It is essential that the scheme has proper auditing, monitoring and enforcement procedures built in to it.

39. It is essential that the third party accreditation scheme should have strong backing from Government and that it should be supported by a Panel comprised of a range of stakeholders, including Defra and consumer representatives. Suppliers must be required by Ofgem to comply with the decisions of the accreditation body, and there should be an appeals mechanism built into it.

40. The accreditation body must have access to expert advice on CO2 emissions reductions, for example the Climate Change Office or the body being set up to advise on the Climate Change Bill.

6 August 2007.