

## Response to Ofgem on green supply offerings

This response has been produced by the Energy Retail Association (ERA), the trade association for domestic energy suppliers in Great Britain. All the main energy suppliers operating in the domestic market in Britain are members of the Association: British Gas, Scottish and Southern Energy, RWE npower, E.ON Powergen, EDF Energy and ScottishPower.

The ERA has also engaged with some other suppliers of renewable and low carbon tariffs to where possible, reach overall industry agreement. However currently all suppliers will feedback to Ofgem on an individual basis in which they will provide more details on their views as to how this can be taken further.

This response is feedback on the 'banked' and points of disagreement or outstanding issues discussed during the workshops, from some or all of ERA's members.

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The ERA welcomes Ofgem's consultation on green supply offerings and the amount of time Ofgem has dedicated to this issue to date.

The current green supply offerings have received a lot of criticism from industry commentators and the media, which has resulted in customers potentially becoming cautious of becoming engaged with these products. Therefore any activity which promotes customer confidence in green supply offerings is a positive step forward. It must be remembered that 'Green' tariffs are still a relatively niche market place for both domestic and I&C customers. However there is the general desire to see these products become more mainstream, and for suppliers to continue to innovate in this area, delivering products consumers want with environmental benefits.

Throughout the workshops hosted by Ofgem it is has become clear that there are many differences of opinion on a variety of issues relating to the guidelines and any verification scheme. This could potentially lead to much debate but no tangible outcome, and therefore no increase in customer confidence. The main principles of transparency, Additionality and verifiability should be kept at the forefront of any decisions, to make sure this focus is not lost.

We are all in agreement in that whatever format is taken, any product must be clear and transparent to the consumer, so that the customer is fully appraised of the product they are buying into; allowing them to make an informed judgement as to what part they want to play as a consumer in terms of their investment in green products and as a result their environmental contribution.

The Guidelines are to provide suppliers with a broad high level framework to steer their green supply offerings, with the verification scheme providing further customer confidence through visible verification of such green supply offerings. It is Ofgem's role to publish the guidelines, with the industry to then use this as a base to produce a verification scheme.

To encourage further innovation in this market place, it is important that the guidelines are not too prescriptive on suppliers. In delivering the guidelines, Ofgem need to bear in mind the agreed voluntary nature of the guidelines and that they refer solely to 'green supply offerings', or now 'renewable' and/or 'low carbon' tariffs, and should not result in further regulation for the industry.

Also, although there are areas that will inevitably overlap between the guidelines and any verification scheme, the role of the guidelines and that of the scheme should be clear.

To date, the consultation process has been very open, transparent and flexible and the potential outcomes are likely to benefit from this. However at times the consultation process has been rather confusing and complicated. This is not surprising considering the complex nature of the subject matter, what is trying to be achieved and the differing of views amongst stakeholders. It is to be commended that Ofgem are tackling this issue with such interest and thoroughness and have a keen desire to see concrete outcomes as soon as possible. However with reference to the consultation process that is due to take place in the autumn, careful consideration should be given to its structure and timings prior to it being published, as these continue to be important and complex issues. For example, a consultation process longer than the six weeks initially allocated to the autumn consultation would be welcomed to enable the industry to continue to fully think through this area and identify possible solutions to the unresolved issues.

Attention should be focussed on producing the guidelines. Any accreditation or verification scheme should then be developed using the guidelines as a foundation.

### **Voluntary guidelines:**

#### **Banked Concepts**

- Voluntary guidelines are generally preferred;

*Yes, Suppliers should be able to sign up to the Guidelines on a voluntary basis.*

- The primary objective of the guidelines was to ensure customer confidence in knowing what they are purchasing when purchasing a green tariff;

*The purpose of the Guidelines should be to provide guidance to Suppliers so that customers have confidence in knowing what they are purchasing when deciding to subscribe to a 'renewable' and/or 'low carbon' tariff.*

*The guidelines should be 'industry facing', and any verification scheme should be 'customer facing'. Although there is some overlap, there are fundamental differences between the remit of the Guidelines and any verification scheme and the boundaries should be distinct to prevent any supplier or customer confusion.*

- It would be useful to have a list of companies signed up to the guidelines as well as a list of companies not signed up to the guidelines;

*Further clarity is required on this point before suppliers can sign up to this 'banked' concept; for example, how useful is a list of companies if certain tariffs from that supplier have not been verified?*

*In addition, ensuring the list is up to date for all new entrants will be onerous and could mislead customers. Therefore we would recommend that this section is one for any verifier to manage, and that only tariffs that have been verified are listed, with their recognized name and parent company.*

- The potential need for the creation of different guidelines or sections of guidelines for I&C and domestic customers as well as renewable and low carbon tariffs.

*Whilst recognizing that there are differences in renewable and/or low carbon tariffs for I&C and domestic customers as well as renewable and low carbon sources, producing multiple guidelines could introduce further confusion. Therefore, we would recommend that there is one set of guidelines, which have the common areas with subset for the different sections – i.e. I&C and domestic customers, and renewable and low carbon tariffs.*

*The verification/accreditation scheme can then look at the possible rules to put in place to display to customers the different types of products on offer under any scheme, to ensure customers are aware of the differences between renewable and/or low carbon tariffs available to them.*

## **Points of Disagreement or Outstanding Issues**

- Whether the accreditation scheme outlines best practice or a minimum standard for tariffs to comply with;

*Any verification scheme is to verify that the claims made by the suppliers are true, and the supplier needs to earn the badge in one form or another. It is important that any verification scheme does not outline best practice, as by definition this would be the perfect option that other schemes aspire to. Therefore, the scheme should be at least based on minimum standards, although the definition of this should be for the verification manager to determine. Any additional offerings could then be badged further, depending on the type of verification scheme introduced.*

- Need to resolve issues for I&C and domestic customers resulting from the different aims and potential multi-counting of LECs, ROCs and REGOs.

*This is a very complex area. However, this should not mean progress on the development of the Guidelines and any verification scheme is delayed, as overall agreement may not be reached. Therefore, to bring about resolution we suggest that the supplier should provide information to their customers, prior to the customer signing up to the tariff, on the product in a clear and transparent manner in accordance with existing ASA standards, to allow customers to make an informed choice. REGOs can be used to verify the source of the renewable tariff and prove that the supplier has enough renewable energy to then sell on to its customers (i.e. balance the books and prevent overselling).*

- Role of carbon offsets in guidelines.

*Introducing a prescribed role for carbon offsetting into the guidelines will limit innovation and cause customer confusion in this burgeoning market. Offsetting should be considered as a form of Additionality and therefore suppliers and prospective customers decide if carbon offsetting is an important aspect to them. Carbon offsetting is not unique to the energy supply marketplace, and there are unlimited ways for energy suppliers and other companies to offer carbon offsetting to the public.*

*It is important that there is close liaison between Ofgem, the verification/accreditation scheme provider and Defra's Code of Practice on Carbon Offsetting to ensure balance and synergy and that the guidelines, scheme and code of practice can work together for the benefit of the consumer.*

## **RENEWABLE ADDITIONALITY**

### **Banked Concepts**

- Separate guidelines are required for renewable and low carbon tariffs

*Separate subsets are required for renewable and low carbon tariffs to the guidelines; however, uniformity and synergy should be sought and included in the overall guidelines to assist suppliers in ensuring that what they are offering the public will create customer confidence in this market.*

- Reference will be only made to “renewable” tariffs within the renewable guidelines and “low carbon” tariffs within the low carbon guidelines, rather than “green” tariffs to align it to forthcoming EU legislation and provide clarity.

*It is agreed that the term “green tariffs” is outdated and for the purposes of this consultation, “low carbon” should be the common term, with “renewable tariff” as an accepted term for tariffs where the energy is from a renewable source. Further information would be welcomed on what forthcoming EU legislation is referenced in this point.*

- Although renewables are a subset of low carbon, the differentiation of these generation forms allows customers to decide which benefits they want [their generation] to pay for.

*Agreed. The verification system should include an approach for suppliers to inform potential customers of the energy source of the tariff.*

- Sufficient information must be provided to ensure the customer knows exactly what “extras” they are getting above that of the standard generation mix (including the generation provided by the RO).

*This bullet point needs to be separated into two for clarity – i.e.:*

- *Sufficient information must be provided to ensure the customer knows exactly what “extras” they are getting.*
- *Information should be provided to customers on the amount customers currently pay for the Renewable Obligation.*

- Customers need to be sure that when paying into a fund to develop new renewable generation, the generation is only happening because they are paying into the fund.

*In reality, this is exceedingly difficult to prove. Whilst this is an important aspect, it is more of an ambition than a tangible outcome. It is also unrealistic to expect proceeds from all tariff related fund to trigger new build due to the levels of financing required and other issues. However funds can make a genuine contribution that encourage research for technologies that currently sit outside the mainstream of the RO, and this option for Additionality should not be excluded.*

*In addition, this could form part of the next bullet point.*

- The renewable funds need to be managed appropriately to ensure they are invested into new renewable generation.

*Yes, although how this is done should be consumer and supplier driven so long as the consumer is fully aware of what the fund aims to achieve. Best practice auditing under the verification scheme could achieve this.*

### **Points of Disagreement or Outstanding Issues**

- What guarantees are available to ensure that a renewable fund will result in new build generation?

*Again, this is very difficult to guarantee, however best practice auditing will ensure the funds raised by customers on the tariff are spent appropriately. Attention should be given to the costs associated with the auditing process to ensure that these do not escalate and become a disincentive to suppliers who may wish to offer these products.*

## **WORKSHOP 2: LOW CARBON ADDITIONALITY**

Carbon offsetting options:

1. Carbon offsetting is integral to the bandings. As such, if relative carbon emissions for a particular tariff were reduced because of a carbon-offset scheme it would be possible for suppliers to move to a lower carbon intensity band.

**Or**

2. The carbon intensity of the tariff, and therefore the band within which it falls, is based purely on the fuel mix used to generate the required electricity. However, if carbon offset schemes are included within tariffs, these could be recognised as an “added extra”.

*Carbon offsetting is an important way for suppliers to differentiate themselves from the competition. However offsetting is not just an option for energy suppliers but many other industries too. It is important that innovation is not stifled by prescriptive regulation in this area. Therefore, so long as a customer understands the level of carbon emissions generated by the type of fuel source, suppliers should be able to add carbon offsetting in whatever form the customer may wish. Clarity in the marketing of these products ensured by the ASA and close affiliations with the Defra Code of Practice where appropriate will come into play to ensure customer comprehension.*

### **Process for selecting the accreditor**

Guidelines lay down minimum requirements relating to the accreditation role:

- that the certifiers must be trustworthy, technically and commercially competent,
- capable of undertaking a communication and advice role and
- Potentially a requirement relating to the scope of the scheme.

Ofgem's role in facilitating this process?

One accreditation scheme per set of guidelines.

*This is an opportunity for Ofgem to set the minimum bar and define what can be taken into account in relation to green tariffs then let competition deliver against that.*

*Initial attention should be focussed onto producing the guidelines. Concern over an accreditation/ verification scheme at the moment confuses the situation. The accreditation or verification scheme should then be developed using the guidelines as a foundation.*

*At the moment it is not clear exactly what form the scheme will look like. There are benefits to both the initial star rating system proposed by Ofgem and the one badge concept suggest by EST, however neither seem to be the complete answer the industry or consumers are looking for. We suggest that the verification scheme is temporary paused until the guidelines are agreed.*

*Although the industry is keen to develop its verification scheme for this area, Ofgem will be a welcome stakeholder in its development. Other stakeholders' involvement will also be important to ensure customer confidence and buy-in.*

*Consumers and the industry need the best scheme possible to support these products, and therefore a tendering process with identified suppliers would be appreciated. The industry needs confidence that the verifier is in it for the long haul, as any sudden changes may jeopardize customer confidence.*

### **Additionality in Guidelines**

Agreement that green funds can demonstrate "something extra", agreement was not reached on whether these should be included in the guidelines.

### **BANKED CONCEPTS:**

- 100% REGOs should be used to demonstrate evidence of renewable generation.

*Agree, however the message in this statement could be clearer, i.e.: 100% REGOS should be used as evidence of supply for a tariff on a **match-volume basis**. REGOs are a suitable way to authenticate that the supplier has enough renewable energy to sell on to its customers (i.e. balance the books). As indicated elsewhere in this response we are aware that the issues surrounding LECs are still to be resolved.*

- Supply for overall fuel mix should be displayed with fuel mix for green tariff

*Agreed, although this is one small area for the verification scheme to consider.*

- Renewable tariffs should be tariffs that result in the generation and supply of additional renewables only.

*This is very difficult for the energy supplier to have any control over, as they are unable to dictate to renewable generators how they invest the money suppliers pay for the energy, and so cannot guarantee that their renewable tariff will be generating additional renewable energy. Renewable Tariffs should result in the stimulation of demand for renewable supplies, which ultimately sends the correct investment signal to renewable generators when demand exceeds supply, resulting in the generation and supply of additional renewables.*

#### **POINTS OF DISAGREEMENT OR OUTSTANDING ISSUES**

- Treatment of fund based tariffs. There was a difference of opinion as to whether a [specified] contribution to a renewable fund could be used as a minimum requirement as an alternative to 100% REGO based supply. Some respondents felt that funds could be an added extra (“Nectar point”) but would need to be additional to the renewable supply if the tariff was to be considered renewable. Other respondents considered that renewable funds were an important part of the renewable tariff market and provision should be made for these to be recognised as renewable tariffs even without renewable supply;
- REGOs/Fuel Mix Disclosure annual reporting period does not allow banking which creates flexibility issues for suppliers;

*Focusing on this level of detail could result in the guidelines and any following verification scheme becoming too complex and onerous. Though this is an important issue, it is beyond the scope of this consultation and would require much more consideration to resolve.*

- REGO/LEC differences in coverage result in a fundamental anomaly - this is a primary issue for I&C guidelines;
- Inclusion of LEC retirement may need to be included in I&C guidelines and potentially domestic guidelines;
- An issue that requires resolution in the I&C guidelines is how to mesh LECs with REGOs;

*Current legislation allows LECs to be traded separately. Until this issue is clarified then there may be no agreement on this issue. Therefore to ensure that this consultation, the publishing of the guidelines and any subsequent verification scheme is not delayed it may be prudent to decide that as long as the customer is aware of the company's practice in this area, the customer can then decide.*

- Disagreement as to whether further requirements relating to Additionality should be included. Such forms could include the retirement of LECs/ potentially differentiations between percentages of REGOs – **ROCs**? - that need to be provided (i.e. 10%, 25, 50%, 100%)

*This level of detail is too precise for the guidelines. This area should be left to the verification scheme; however, this has the potential of becoming too prescriptive and therefore will limit innovation and competition. Suppliers should be able to offer customers a wide range of tariffs that relate to customers' needs.*

*The Guidelines should indicate what is meant by Additionality but it should then be down to the suppliers as to how any Additionality is promoted and demonstrated. The verification scheme will then be the vehicle to assess the transparency and substantiation of any claimed Additionality as one of the criteria for awarding the 'badge' in whatever form to a product.*

## **Information Strawman**

### **BANKED CONCEPTS:**

- Suppliers should provide information on their “green” tariffs in a standard format, on their websites and with any information sent containing pre contract information.

*Depending on the interpretation of this concept, this level of detail could become rather prescriptive. In addition, this is more of an issue for a verifier than guidelines. To enable suppliers to offer this information in the best style for their potential customers this could be worded:*

- *Suppliers should provide information on their “green” tariffs in a verifiable form, on their websites and with any information before entering into an agreement with a new customer.*