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Dear Hannah,

### **Ofgem Summary - Consultation on Developing Guidelines for Green Supply**

Gemserv welcomes the opportunity to comment on the green energy tariff guidelines consultation, based on our experience in the GB energy industry as a specialist consultancy operating at the market level. Additionally, we have first hand experience of operating accreditation schemes both in energy and outside and have taken this experience into account when responding. We have structured our response around your recent summary document, as opposed to your consultation document, as we believe this relates more to the current debate than the questions raised in the initial consultation.

#### **A. 11<sup>th</sup> June 2007 - Seminar on Developing Guidelines and an accreditation scheme for Green Supply**

##### **Voluntary Guidelines**

We support the majority of opinion that the guidelines should be voluntary, on the basis that if they have value suppliers will wish to participate. The accreditation scheme should itself support self-regulation in line with the overall intention of better regulation and market responsibility. All stakeholders should also have a responsibility to ensure that the existence of the guidelines, and details of suppliers who have signed up, are well publicised so that companies who operate schemes that are not accredited can be easily identified.

##### **Relationship between the guidelines and accreditation scheme**

We believe that accreditation is an important pillar in ensuring the success and effectiveness of the guidelines. The options for accreditation seem to fall between self-certification and formal independent accreditation. We believe that self-certification, if used, needs to be based on robust principles, supplemented by 'spot

checks' from independent accreditors. Formal accreditation would add the greatest degree of comfort for customers that low carbon and renewable energy tariffs comply with the guidelines. Ofgem needs to be mindful of the work involved in achieving differing degrees of assurance. Gemserv often use the following diagram to highlight the fact that higher levels of assurance require greater levels of analysis and coverage of requirements by the auditor.

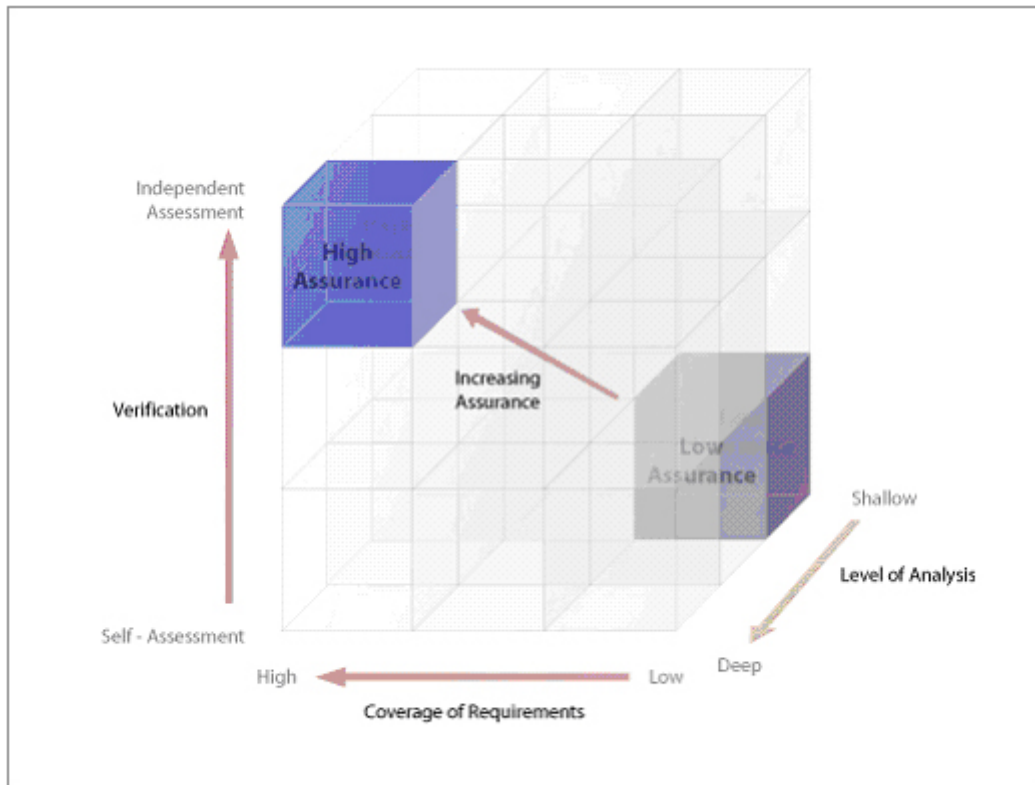


Figure 1 – Gemserv's Assurance cube<sup>©</sup>

We believe there are weaknesses in the Energy Savings Trust's (EST) approach as they have not adequately defined the level of assurance in their proposal and have not considered well established assurance standards. Consequently, their cost estimates are ambiguous without this additional information. The industry will need to decide on what level of assurance is desirable (self certification through to independent audit), taking into account the fact that a higher level of assurance correlates strongly with a greater coverage of a guideline requirements, a higher level of analysis of information relating to the suppliers tariff, and ultimately higher compliance costs.

### Reducing Customer Confusion

There is clearly a need to develop guidelines on low carbon and renewable energy tariffs based on the evidence that there exists customer confusion regarding green supply tariffs. Furthermore, we also believe that further clarity will encourage customers to become more pro-active in seeking low carbon and renewable energy suppliers.

## **Monitoring Compliance with the guidelines**

We suggest that it would be appropriate for Ofgem to consult on the procedures relating to what happens in an instance of non-compliance with the guidelines, taking into consideration the degree of non-compliance.

## **Use of term “Green” and the creation of multiple guidelines**

If the main purpose of the guidelines is to support a consumer’s ability to make an informed choice, then we believe they should also involve low-carbon technologies, in line with the UK’s international carbon reductions commitments. Furthermore, we agree that there should be two guidelines; one for renewable tariffs and one for low carbon tariffs. We also agree that there should be separate guidelines for domestic customers and I&C customers to address their differences. However, we think it is important that these four separate considerations are streamlined as much as possible. We propose separate guidelines for low carbon tariffs and renewables tariffs but within those guidelines there should be separate provisions for domestic and I&C only where necessary. We foresee that the majority of provisions under the guidelines should apply to both sectors.

There will also be many similarities between the low carbon and renewables guidelines as 100% renewables could be seen to be a subset of scenarios under the low carbon guidelines. We think that a distinction should still be maintained between the two but ‘red-tape’ involved with complying with both should be cut to a minimum by aligning the two guidelines, wherever possible.

## **Additionality**

Gemserv have no specific comments on this area of the consultation.

## **Star Rating System**

We agree with others that the star rating scheme appeared complex, especially in regards to the additional stars. We do, however, support a scheme that allows the “ranking” of tariffs. We believe that the scheme should fully support a supplier’s requirement to be able to demonstrate differences between their tariff scheme and those of their competitors in a way that can be easily understood by potential customers. Furthermore, the scheme could support consumer choice by providing further information on the impact and benefit that a particular tariff has on the environment and the justification of any price premium. The star rating system concept should be refined into some sort of banding scheme, such as that discussed in the low carbon workshop. For renewable tariffs, a simple badge could be used, although additional information on the type of renewable generation may be important (e.g distinguish between wind power and hydro for instance). We are not convinced that a single certification mark will provide much value for low carbon tariffs. A risk is that suppliers may tend towards a lowest common denominator in terms of what their tariffs deliver. We agree with Ofgem that this does not allow for differentiation by, and between, suppliers.

## **“Banked” Concepts**

We agree with the “banked” concepts. With regards to the list of companies that are, and are not, signed up to the guidelines, this information is only useful to consumers if effectively publicised. Publicising would require the support of customer focused groups such as price comparison websites and consumer bodies. Alternatively, the accreditor could operate a central website that has specific information on supplier tariffs. The link to this website could be published with all marketing material and by price comparison websites. Ultimately, there will be an additional cost to providing this service.

## **Points of Disagreement**

As discussed above, we believe that the accreditation scheme should outline best practice and allow for differentiation for low carbon tariffs (i.e banding) as opposed to a minimum standard (badging). For a 100 per cent renewables tariff a simple badge may be the best option. Alternatively, a 100 per cent renewable could be seen as the highest band on the low carbon banding and receive a special logo stating that the tariff is 100% renewable.

With regards to the role of carbon offsets in the guidelines, we agree, that for consistency, the Defra carbon offsetting Code of Practice should be used for the identification of allowable carbon offset schemes. If this code is not in place when the guidelines are being drafted, as may be the case, then the guidelines should be written in consultation with Defra and revised when Defra has written their code of practice.

It is also our view that carbon offsetting can be seen as a separate product and offered either together with, or independently of, green energy tariffs that focus on electricity supplier. Indeed, it may be that some consumers would seek to obtain such products from companies other than their energy supplier to cover non-energy products (e.g air flights).

## **B. 25<sup>th</sup> June 2007 - Workshop 1: Renewable Additionality**

We were unable to attend this workshop so our comments are limited to the information provided in your summary document.

### **Concept of Additionality**

We agree with the comment made in this area.

### **Increased information supporting supply and demand signals**

Additionality may not occur when consumer demand for renewable generation exceeds supply. The assertion could be refined by saying that additionality will occur when consumer demand for renewable generation exceeds supply locked into by suppliers through their obligations under ROCs and the impact of other legislation that puts pressure on suppliers to invest in renewable generation, such as the EU ETS and LCPD.

### **Minimum requirements for additionality**

Gemserv have no specific comments on this area of the consultation.

### **Strawmen models**

We agree with the small group process undertaken and eagerly await the outcome.

### **Demonstrating Additionality through Renewable Funds**

We broadly agree with the comments made. However, in line with our position on carbon offsetting we believe that renewables funds should not be considered as a tariff and should be treated separately to the provision of renewable energy through a tariff. This provides for price transparency and comparability between products. We also disagree that there is a need for an advisory board to oversee fund investment. Checks that funds are being invested in renewable energy should be undertaken, against pre defined guidelines, as part of the audit of these products.

### **Banked concepts**

We broadly agree with these banked concepts.

### **Points of disagreement or Outstanding Issues**

Gemserv have no specific comments on this area of the consultation.

## **C. 3<sup>rd</sup> July 2007 - Workshop 2: Low Carbon Additionality**

### **Support for separate guidelines**

Please refer to our comments under the heading "Use of term 'Green' and the creation of multiple guidelines".

### **Demand for Low Carbon Tariffs**

We believe there would be sufficient demand for low carbon tariffs and even if it was proved there was not, we believe that going forward this could be an area of significant growth given limitations in renewable generation coming on-line. Consequently, we agree that the guidelines should apply to low carbon tariffs.

### **Additionality**

We agree that fuel mix information could be considered as important by some consumers (e.g disclosure of the use of nuclear generation). Fuel mix information may not need to be included in the guidelines, however, as disclosure could be left up to suppliers to decide on. This would simplify the cost of compliance and simplify the information provided to customers. If fuel mix is disclosed for low carbon tariffs it should tie into provisions already required under the fuel mix disclosures rules.

### **Information provision**

We support the banding scheme with bands split by volume of CO<sub>2</sub> produced per unit of electricity or gas. Strict rules on how a supplier calculates its CO<sub>2</sub> content for each

tariff must be adhered to. One issue will be that suppliers will switch all green and low carbon generation to these green tariffs effectively creating brown tariffs. Information provision on, and guidelines for marketing, brown tariffs could further strengthen the effectiveness of the guidelines in promoting the green tariffs.

### **Minimum Bar**

As noted in the workshop, but not mentioned in the summary paper, we believe that the minimum bar should be a moving target to promote further progress by suppliers in their low-carbon tariff offering.

### **Creation of Strawmen models**

Gemserv is open to both of the strawmen models put forward during this workshop. We believe, however, that the provision of carbon offsetting services is a separate commodity to electricity provision and should be distinguished, were possible, from the provision of electricity. This will promote competition between carbon offsetting products offered by both energy retailers and others. Consequently, we have a preference for the 2<sup>nd</sup> strawman model.

### **D. 9 July 2007 - Workshop on accreditation scheme process for selecting the accreditor.**

#### **Energy Saving Trust's Role**

We agree with Ofgem's definition of a suitable certifier. We also agree that the industry should select the appropriate certifier. How the industry will select a suitable certifier is less clear, however. We would suggest that a competitive tender process be run to choose the appropriate certifier (EST or other). The tender process could be facilitated by a panel of industry representatives from energy suppliers or their representatives, such as the ERA. Ofgem and consumer groups should also be involved in this panel to provide balance.

We believe a competitive tender process will provide the industry with good value for money in terms of its accreditation provider and settle any issues over the EST's involvement in the consultation process. We also believe it is also important to set a contract term for the chosen certifier. This means that if the certifier is failing in its duties then a more suitable provider can be hired when the contract is re-tendered. We believe this is very important in ensuring the on-going success of the guidelines and its accreditation.

#### **Energy Saving Trust Proposed Accreditation Scheme**

##### **Marketing of the scheme**

We believe that any marketing should not mention the accreditors name, especially in any accreditation badge or bands. This is to ensure continuity of the marketing for the scheme going forward (i.e it should not be an EST Renewable Energy badge or similar, for any other certifier). This is especially important if the certifier is chosen in a competitive process and there is the possibility of re-tendering the contract at the end of its term.

## **Inclusion of carbon offsetting scheme**

We agree that carbon offsetting should be restricted to those tariffs complying with Defra's code of practice. If this code is not in place when the guidelines are being written then guidelines should be written in consultation with Defra and revised when Defra has finalised its code of practice.

## **Mandatory/ Voluntary**

We agree with the view that the guidelines are voluntary, but once a company signs-up to the guideline then accreditation is mandatory.

We agree with the majority view, that suppliers should have the flexibility to sign up to the guidelines for individual tariffs. However, the company must only market its compliance with the guidelines for that individual tariff and not for all green tariffs and not at the company level.

## **Qualities of the accreditation provider**

We broadly agree with these comments.

## **Use of Badge**

Customers laying claim to the use of green energy has become more prevalent over the last few years, such as high-profile retail and supermarket chains. This may be a good opportunity to develop guidelines around the use of these claims, while also providing customers the ability to have their claims verified. We believe, that if customers are to use the accreditation badge, all marketing material should be supplemented by a percentage figure of how much of the companies electricity is consumed under this tariff and a *de minimis* level for the use of the badge. This would need verifying either by the same accreditor used to verify energy suppliers' compliance with the guidelines or by another independent accreditor that would rely on the fact that the energy suppliers tariff had already been verified.

## **Do you have any additional suggestions as to how the scheme might be promoted**

As the scheme is intended for both business and domestic consumers it may be sensible to involve more than the Energy Saving Trust (if taken on as the certifier) in its promotion. Clearly the Carbon Trust and other environmentally related NGOs may also be instrumental in publicising the scheme through their contacts and provide further value for the scheme through existing initiatives (e.g. energy efficiency accreditation scheme). As the target audience is also wider than consumers who may only be seeking to reduce their carbon footprint, it could be feasible to involve other organisations in raising awareness, in the same way that, for example, price comparison websites have developed.

We trust that you find our comments helpful. Please do not hesitate to contact me if you would like further clarification on any of the points made in our response.

Yours sincerely,

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