

# Developing Guidelines for Green Supply

## REA response

Clair Hogg or Hannah Cook  
European Strategy and Environment  
9 Millbank, London, SW1P 3GE  
[ES&SMarkets@ofgem.gov.uk](mailto:ES&SMarkets@ofgem.gov.uk)  
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## Introductory comments

The REA believes there are two important aspects to green supply offerings. Firstly they should not mislead the general public and secondly they should result in environmental improvement. The first is a consumer safeguarding issue, and is important but not fundamental to the REA's remit. We focus on how green consumerism can be harnessed to bring environmental benefit, in particular to increase the amount of renewable energy produced.

This response should be read alongside our response to the EST consultation document.

## Chapter 2 questions

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

We share Ofgem's view that it is essential that measures are introduced to promote customer confidence in green tariffs and to enable useful evaluation and comparison between products.

We agree that industry should develop its own self-regulatory guidelines and we welcome Ofgem's initial impetus in seeking to facilitate the process. EST in consulting upon an accreditation scheme for such tariffs inevitably has to go into greater detail and give greater thought to the operation of the scheme. We believe, therefore, that it should inform Ofgem's guidelines.

Clearly the guidelines and accreditation scheme should be complimentary and not divergent. At present there is divergence, for example in the areas of standard of evidence, criteria for star rating, and the inclusion of other technologies.

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### Question 2: Should the guidelines be mandatory or voluntary?

Voluntary.

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

Yes

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

No.

The interest from supply companies has focused on renewables in the context of green tariffs – and the term green tariff has become synonymous with renewable tariffs.

We have no problem if suppliers wish to offer other types of tariff. We suggest that the term green tariff should be dropped, and replaced with the term “renewable tariff” and if suppliers wish to offer CHP, clean coal or nuclear tariffs these should be labelled as such, and separate guidelines be developed for them.

Essentially the accreditation scheme EST is developing is applicable only to renewables. If other types of offering are included it is likely to slow down and complicate process of developing guidelines.

Note – offset tariffs could support any form of low carbon technology, and the only requirement should be that it is made clear to customers what they are supporting.

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

It should be transparently clear what customers are getting as a consequence of being on the tariff.

**Ofgem suggestion:** *An indication of the percentage of the individual Consumer's bill that is used to fund renewable generation (for standard tariffs as well as green supply tariffs)*

**REA comment:** It is appropriate for the customer to know the premium he/she is paying. For source tariffs this cannot claim to be being used to fund renewable generation, as it is merely pushing up the price of ROCs, and the consequence regarding increased renewable generation is indirect. For renewable fund schemes where the fund is spent on ROC-generating projects, it can only be claimed that this is providing additional assistance to a project which already receives benefit from the renewables obligation. For renewable fund schemes spent on non-ROC-earning projects, it would be appropriate to claim that the fund was contributing to a project which is not supported by any other policy mechanism.

**Ofgem suggestion:** *For any 'green' tariff, a calculation of the percentage of carbon being saved against the suppliers' standard fuel mix*

**REA comment:** this is not very logical for source (supply) <sup>i</sup> offerings. If the customer on a renewable source tariff is saving carbon as they are using only renewable electricity, then it follows that customers on normal tariffs are getting more non-renewable electricity, and are consequently emitting more carbon.

For fund and offset tariffs carbon savings can be reported, and this would be appropriate and desirable to do so.

**Ofgem suggestion:** *Where carbon offset is being used, an indication of the percentage of the consumer's carbon emissions that are being offset through the scheme.*

REA comment: agreed.

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

The Ofgem consultation suggests that the REGO be used, whereas the EST document proposes that LECs + REGOs demonstrate unique green supply and retiring ROCs then ensures additionality.

We agree with EST that LECs and REGOs *retired together* demonstrate unique green supply. It must not be a case of either LECs *or* REGOs as this would lead to double counting.

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**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?**

The arrangements should tie in with fuel mix disclosure, and avoid double counting. For transparency the supplier should record the fuel mix of its overall supply as well as the fuel mix for any renewable source tariffs offered. There would be no need to have separate fuel mix disclosures for fund or offset schemes.

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

REA regards the retirement of ROCs as an expensive and indirect way of delivering additional renewable electricity generating capacity. It would be more cost effective if an equivalent amount of money were simply donated into a fund scheme. The argument is detailed in an appendix to our response to the EST consultation.

However the value of ROCs is not known until 1<sup>st</sup> November (for future compliance periods) and therefore an alternative measure of value would be needed. This could perhaps be [the buy-out price equivalent of 20% of the ROCs<sup>ii</sup>].

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**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?**

We elaborate our views in response to the EST consultation.

## Chapter 3 questions

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

We think the proposals elaborated in the consultation document in paragraphs 3.15 – 3.33 are fundamentally flawed.

The proposal to rank tariffs taking into account "the extent to which transmission losses were observed as a result of the proximity of the generation source to the electricity grid, or the efficiency of the generation source itself in terms of the load factor at which it typically operates" is based on flawed logic.

Transmission losses are not the same environmental issue, for renewable generation as they are for fossil fuel generation. No additional fuel is wasted if transmission losses are higher; the only consequence is that more (wind turbines) would be needed to deliver the same amount of power. And the load factor at which a technology typically operates is not a measure of that technology's efficiency.

The criteria would be endlessly argued about. And it simply would not be possible to devise objective criteria for visual amenity. People either like the look of wind turbines or they don't; it is purely subjective.

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**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?**

There are pros and cons of both a pass or fail or a ranking system (although not of the type envisaged by Ofgem and commented on above).

A pass or fail has the merits of being simple, but would have to set a sufficiently high hurdle to deliver a meaningful environmental benefit.

A ranking system could enable a wider variety of tariffs to be offered – and meet some suppliers' aspirations for tariffs that charge no premium.

We believe that it is paramount that it is made clear to customers what they are getting and the difference they are making.

We elaborate further in response to EST's consultation document and therefore have not addressed questions 3 – 7.

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

Yes.

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<sup>i</sup> The Ofgem document uses the term "Supply Offerings" – whereas the EST document uses "Source Offerings" to refer to those tariffs which aim to match kWhs renewables generated with kWhs of electricity consumed by the customer. For clarity only one term should be used. This response uses the EST terminology.

<sup>ii</sup> I suggest 20% of the buy-out value, as that is broadly equivalent to 10% of the ROC value. Avoided buy-out is a known value, the ROC value would not be known until after the event. The buy-out is very roughly half of the value of a ROC, and the original proposal was 10% ROC retirement, hence the suggestion of 20%.