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Dear Clair and Hannah

### **Developing Guidelines for Green Supply**

Thank you for providing Scottish and Southern Energy with the opportunity to comment on the above consultation document. Our detailed comments on the questions posed are set out in the attached paper however we thought that it would be helpful to set out our views on some high level principles.

We agree with the overall objectives of the consultation, namely to update and develop the guidelines. We consider that the purpose of the guidelines should be to facilitate transparency and provide customers with choice within the developing marketplace.

We believe it appropriate that Ofgem's guidelines should act as an umbrella framework under which an accreditation or verification scheme could operate. In keeping with this principle, the guidelines should not be driven by policy developments elsewhere but should be sufficiently broad and flexible to accommodate changes. We are broadly supportive of the introduction of an independent (of Ofgem) accreditation scheme and have provided more detailed comments as part of our response to the concurrent EST consultation.

We are firmly of the view that the guidelines should not limit the interpretation of "green". Rather they should allow customers to be confident in claims made by energy suppliers whether "green", low carbon, or otherwise. Furthermore, the guidelines should not make judgments or endorsements of particular product types or technologies. If the guidelines are limited they will prevent a practical and effective framework from being developed and will achieve limited take-up by suppliers.

### **Way forward**

We have participated in the industry workshops at which there has been considerable debate and it is clear that there is a wide range of views on many of the areas covered within Ofgem's consultation. One observation would be that there has tended to be an

overlap between the principles underpinning the guidelines, compared with the detail that should rightly form part of any accreditation or verification scheme.

We believe that attention should be focused on producing the guidelines on the timescales originally envisaged, i.e. by Autumn 2007, which would afford further opportunity for interested parties to contribute to the design of the accreditation scheme.

I hope that you find our comments helpful. If you would like to discuss further, please call.

Yours sincerely

Katherine Marshall  
Regulation Manager

cc Victoria Willis, Energy Savings Trust

## **Consultation questions**

### **Status/Scope/Content of guidelines**

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

We agree with Ofgem's previously stated view that the guidelines should not be overly prescriptive as this could (and in our view, would,) hinder innovation, customer choice and limit new products being brought to market by suppliers in an area which is of increasing interest to the generality of domestic customers in particular.

Instead, the guidelines should provide a clear high-level framework which is not overly involved in the detail of the products offered by suppliers. A transparent framework will promote consumer confidence that suppliers are not misleading them about the products they are selling and thus enable the customer to choose the product which best suits them and their needs. For example, a renewable electricity supply tariff should be required to verify that electricity sold under that tariff is sourced from renewable sources.

We note that there would appear to be anecdotal evidence that customers continue to be "confused" by suppliers' green offerings. We believe that one of the reasons why there could be general confusion amongst customers is because of the general increase in awareness of "green" issues generally and the use of the word to encompass actions which mean different things to different people. This viewpoint is aptly demonstrated by the recent research conducted by Ofgem and NCC.

Customers have become more sophisticated in terms of their awareness of environmental issues. Some customers place a high value on the certainty that can be provided to them by their supplier of the source of the energy that they are purchasing, whereas others simply wish to ensure that they are making a positive contribution to addressing climate change or sustainability objectives. "Being green" could therefore include positive energy reduction activities as well as electing to purchase low carbon or renewable energy. In addition, this applies differently to the domestic/non-domestic sector.

Notwithstanding this point, however, the guidelines should not seek to make judgements or endorsements about different technologies, i.e. they should be technology neutral. We also do not believe that it is necessary for the guidelines to include minimum criteria regarding what constitutes additionality, other than the general principle that any claims made by the supplier should be backed up by the appropriate evidence and verified by an independent third party.

#### **2. Should the guidelines be voluntary or mandatory?**

We are supportive of Ofgem's initial proposal, namely that the guidelines should remain voluntary. To do otherwise would be imposing unnecessary regulation on the fully

competitive energy supply market. In keeping with this, we see no need for suppliers to “sign-up” to the guidelines.

### **3. Should tariffs to non-domestic customers be covered by the guidelines?**

We suggest that Ofgem considers whether there would be merit in developing a separate set of guidelines for the non-domestic market. As Ofgem will be well aware, currently the non-domestic sector is the biggest market for green supply and this is set to grow given other Government initiatives such as the Carbon Reduction Commitment. Alternatively the guidelines could differentiate between half hourly and non half hourly customers.

We understand that following the workshops there are to be further meetings to discuss issues associated with non-domestic customers and we will provide input to these.

To aid consistency with the domestic sector we believe that REGOs should be used as evidence of supply from renewables.

### **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?**

On the basis that the guidelines should take account of increased awareness of environmental issues generally and that there are different ways to make a positive contribution to climate change, we support extension of the guidelines to include non-renewable, non or low carbon technologies. This would also recognise that for some customers a low carbon product is of value to them and an appropriate choice. Such an approach would allow nuclear and other lower carbon generating technologies such as good quality CHP to be accommodated.

We are strongly of the view however that if technology such as nuclear is to be included within the guidelines the rating criteria for the accreditation scheme needs to make it clear to customers that it is not the same as renewable or CHP and that its environmental impact is different. Furthermore, on the basis that the guidelines provide a framework within which customer choice can be facilitated, any supplier offering which has an environmental benefit should, in theory, be able to be included, even if it only has one star rating.

We do not believe that it is necessary for there potentially to be four sets of guidelines (or four accreditation schemes). Such an approach would be administratively burdensome for suppliers and complex and difficult for customers to understand. As stated above we think it may be appropriate to consider whether there should be separate sections within the guidelines for domestic and non-domestic customers.

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

We understand that Ofgem envisages that this additional information would be an extension of the fuel label principle. On the one hand such information could help support the development of the “green supply” market; on the other there would inevitably be an associated cost to suppliers which would ultimately be borne by customers.

We believe that this approach is rightly part of the “service” proposition and would enable suppliers to differentiate their products. There is a balance to be struck between providing customers with the information that they want whilst also avoiding information overload in what is generally accepted to be a complex area. We are also mindful of feedback from our customers and consumer groups that there is already far too much information provided on bills.

We therefore consider that, whilst desirable, it should be optional for the supplier to provide additional information, whether it be via bills, website or other means. To do otherwise would, in our view, be re-regulating the competitive market and inconsistent with the better regulation principles which have underpinned the successful outcome of the supply licence review.

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

We consider that wherever possible existing mechanisms for the verification of output should be used which would ensure a reduced administrative burden for suppliers and a consistent approach. We believe that Renewable Energy Guarantees of Origin (REGOs) should be used to demonstrate that electricity has come from a renewable source and that generator declarations could be used for other low carbon electricity products.

**7. Is it appropriate for requirements relating to evidence of supply to follow the same requirements as that required for evidence of fuel mix disclosure?**

Yes.

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

The workshops have highlighted the huge difference of opinion regarding what does or does not constitute additionality.

We believe there is now a common understanding that every supplier could opt to buy-out of the renewables obligation, rather than purchasing renewable generation, although that would be expensive. The question therefore is whether in making an “additional

green claim” a supplier’s product stimulates investment in additional renewable capacity over and above the renewables obligation.

In our view, additionality in the renewables sector is most obviously realised via market demand (from customers) for renewable generation, i.e. demand for “green” energy drives suppliers to build, contract or invest in it. Such additionality could be demonstrated via ROC retirement, but it should be recognised that this is not the only indicator of additionality. As far as we are aware, we are the only company that currently retires ROCs via our RSPB energy tariff.

We believe that provided additionality can be [independently] verified it should not be limited.

**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 believe that the use of funds is part of the service proposition offered by suppliers to their customers.

We believe that the rules covering the use of funds for transparency and verification are matters for the design of the accreditation scheme.

## **PART TWO**

### **Third party Accreditation “Star Rating” Scheme: Application of the scheme**

As a general point we believe the development of an accreditation/verification/certification scheme will be a consequence of the revised guidelines. As such Ofgem should not be particularly involved in the development of the scheme.

**1. Do you agree with Ofgem’s view that an “at a glance” mark is appropriate for green tariffs?**

We note that feedback from the consumer surveys suggest that an “at a glance” mark would help customers distinguish between the different types of products offered. We understand that there is some difference in view between Ofgem and EST as to what this should be – a kitemark standard or a rating system.

In our opinion customers would benefit most from a combination of a kitemark and an easily understood rating or star system, which could be used for both domestic and non-domestic products. Above all the system should be clear and could prove to be a useful evaluation and comparison tool for customers.

Ofgem’s proposed criteria for ratings appears overly complicated and of most concern is that all types of technology are categorized together, irrespective of whether it is renewable or low carbon. This will make it difficult for customers to make accurate comparisons at a glance, without understanding more of the criteria or weighting used to grant the appropriate number of stars. We suggest that there could be merit in using the “BAT” (Best Available Techniques) assessment.

There is no evidence that *domestic* consumers would value such detailed information on environmental impact, although it could be possible to develop different criteria for domestic and non-domestic consumers.

Customers should be able to clearly differentiate products “at a glance” and also have access to the detail behind the ratings given.

We have views on the detail of the criteria and have attached an alternative strawman and set out below some banding ideas if this is the preferred approach.

<b>Carbon Band</b>		
<b>Carbon Intensity (kg/MWh)</b>	<b>Technology</b>	
A - Zero Carbon	0	Renewable, Nuclear
B - Low Carbon	TBC	GQCHP, Hi Efficiency CCGT, Gas?
C - Medium Carbon	TBC	Clean Coal – FGD, Carbon Offsets
D - High Carbon	TBC	Conventional Coal

**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?**

Under Ofgem’s model, comparisons between criteria would be arbitrary, as it is suggested radioactive waste would be treated the same as any other waste (resulting in the loss of a star against waste criteria).

Under the proposed criteria it appears likely that lots of schemes would receive four out of a possible five stars. For example, wind loses one star for ‘efficiency’ whilst CHP loses a star for not being zero carbon. However wind is actually very efficient vs the upper limit of efficiency and as such the downgrading as it stands is incorrect. Under the current proposals it appears likely that nuclear would also get four stars. If most products were four star rated customer choice would not necessarily be improved or made easier.

From the point of view of domestic customers we believe it imperative that there is an easy “at a glance” guide so that they can rank and compare products offered by the same or competing suppliers. Customers should also be able to clearly distinguish between low carbon and renewable products and the associated benefits/shortfalls.

We have suggested a different set of criteria for rating which is attached to this paper.

For non-domestic customers, their purchasing decisions may be driven by particular company objectives, so again the ability to differentiate between products is of considerable importance.

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

Very much so, for some customers this will be of primary concern when choosing their product and therefore the rating must clearly demonstrate this. However, this is a matter for the accreditation scheme.

**4. How should the “stars” be allocated in respect of the carbon indicator and for other environmental benefits?**

We have some suggestions about how the ranking could be achieved and set these out in the attached strawman and under question 1 above.

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

No, we believe that we have developed a more customer friendly approach.

**6. What alternative criteria could be used?**

We have provided a strawman of alternative criteria.

**7. Do you agree with Ofgem’s view that the scheme should apply in respect of:**

- **low carbon and renewable technologies;**
- **full range of environmental tariffs; and**
- **tariffs for the domestic and non-domestic markets?**

Yes we agree with all of the above as indicated in our earlier comments to the questions posed. There must be clear information/separation incorporated into the scheme to reflect these different components.

**8. Do you agree with Ofgem’s view that the scheme should be funded by suppliers?**

Yes, but costs need to be clear and transparent and the scheme should not be overly complex otherwise it will deter participants.

*Scottish and Southern Energy*

*8 August 2007*