

## **ScottishPower Response to following Consultation Documents:**

### **Ofgem: Developing Guidelines for Green Supply** **EST: Consultation on Accreditation of Green Tariffs**

#### **Introduction**

ScottishPower welcomes the opportunity to respond to the parallel consultations from Ofgem and the Energy Savings Trust (EST) on Green tariffs.

We are providing a single response to both consultations, providing a common overview section and then answering the specific questions in each of the consultation documents. Our view was that this was the most appropriate response method since both consultations were issued in parallel and are addressing a common theme, with Ofgem and EST working in partnership throughout the process.

We have welcomed the series of workshops that have been held throughout the consultation process. These have provided a valuable forum to encourage debate and discussion around some of the key issues within the consultation documents. The extended consultation period was welcomed and the response deadline should be borne in mind when issuing the next proposal document to allow sufficient time for both internal consideration and industry discussion.

The domestic Green energy market remains small, however we are seeing an increasing demand as consumers are being encouraged on a daily basis to reduce their 'carbon footprint'. This type of terminology is becoming common in day-to-day language and a growing number of consumers are looking for options on how they can make environmentally friendly changes to their lifestyles.

This should be recognised in the title of the Consultation and the final Guidelines when produced, as 'Green' may no longer be an appropriate term and we should perhaps begin to refer to environmental tariff or something similar.

Purchasing a 'Green' tariff for their energy supply is one way of making a positive change and in doing so a consumer should know exactly what they are signing up to. There needs to be a range of tariffs available – these may offer different environmental benefits, e.g. renewable energy, low carbon, charitable fund etc. – but all should offer clarity to ensure the consumer understands what they are purchasing and can choose to pay an additional premium dependent on the level of environmental benefit they select.

We therefore support the key aims of the Green supply guidelines in promoting transparency and verification. The introduction of an accreditation scheme will assist in growing consumer confidence in the Green market.

Whilst we have addressed the questions in the EST consultation document our view is that the focus should be on the development the Green Supply Guidelines and getting these agreed across the industry. Once in place, these will provide the framework within which an appropriate accreditation scheme can be developed.

We worked closely with the EST to establish the previous Future Energy scheme, which represents a good example of a product accreditation scheme, as opposed to a supplier one. The development of the scheme should follow once the Guidelines have been agreed and therefore requires further consideration. This should also be done with the objective of keeping scheme costs to a minimum.

We have taken the questions contained in the separate consultation documents in turn and have provided answers to them in the following pages.

## **Ofgem Consultation Questions**

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

The Ofgem Guidelines should be produced in line with the Better Regulation principles and in conjunction with industry views. Ofgem's role should be that of facilitator and we have appreciated the series of workshops that have been set up throughout the consultation process, which have created a useful forum to share views and debate some of the key issues highlighted in the consultation document. Ideally this will result in a set of Guidelines that are proportional, transparent, targeted and necessary and which the industry is happy to sign on to as a way of encouraging the development of the consumer and business Green energy market. Once in place the Guidelines will also form the appropriate framework for the development of an accreditation scheme.

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

The guidelines should be voluntary and promote best practice. This will ensure that a framework will exist for suppliers to work within to create innovative product solutions.

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

The non-domestic market is further developed than the domestic market and governed by a separate system, i.e. LECS under HMRC governance. However, there may be an advantage to including non-domestic customers in that it will encourage the same best practice methodologies of transparency and verification. Business customers may also welcome the introduction of a Green mark, which will assist in enhancing their own Corporate Responsibility credentials. However, care needs to be taken that mandating the inclusion of business customers within the scheme does not impose any further administrative burdens on suppliers. They need to operate within the same broad framework without imposing strict guidelines. This needs to be considered carefully whilst being mindful of other market mechanisms being introduced, such as the Carbon Reduction Commitment (CRC).

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

We do not agree that the scheme should be limited to renewable energy only, as Green products exist already which can demonstrate clear environmental benefits, e.g. fund based products that support renewable energy projects. Consumers should also be able to choose the type of 'Green' product they want and therefore an accreditation scheme that assesses all types of product will provide credibility and increase consumer confidence.

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

No. Adding additional information to an already crowded consumer bill will be costly to implement and add to consumer confusion. Transparency can be achieved during the sales process by ensuring product literature is clear and concise and explains fully what the consumer is buying. Additional information over and above this may be useful but suppliers should choose how this information is presented and provided to the consumer. A preferable option would

be for information to be available on supplier websites and potentially the Ofgem/EST and switching websites. Customers should be able to find further information about their tariff if they so wish and suppliers should be able to direct them to this e.g. on the website

In the interests of competition and Better Regulation, the format of information should not be prescribed. Suppliers should be able to distinguish themselves from other competitive green offerings by providing innovative offerings and formatting the information in the way that they feel best suits their customers. This would allow consumers to drive demand more than a standardised offering. Existing routes of disseminating information e.g. along with the fuel mix information could be utilised, but these must not be prescribed.

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

The minimum evidence would be to hold the REGO and LEC associated with the renewable electricity supply offering. This links back to the inherent principle of transparency and verification. Additionality would be over and above this and it should be recognised that additionality will generally mean the consumer chooses to pay a higher premium. Additionality is therefore a 'nice to have' and suppliers should be able to demonstrate additionality in a number of ways and not just by the retrieval of ROCs. Holding the REGO and the LEC as evidence of supply will also help to address the issue of double counting since the REGO and LEC are associated with the same unit of power. It should also be noted that offerings to consumers might not be limited to just electricity; creating a standard set of evidence requirements may limit consumer choice.

**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 requirements for evidence could follow the same principles as the Fuel Mix Disclosure requirements but there are elements that could cause dubiety, e.g. the FMD does not require 100% REGOs or Generator Declarations therefore the percentage split could appear different and cause confusion. Any admin or cost burden to suppliers must, however, be minimised.

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

ROC retirement is potentially one method of demonstrating additionality but there may be other ways and the guidelines should remain broad enough for suppliers to demonstrate additionality, e.g. diverting money into an environmental fund.

**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?**

Many fund-based products are run as independent charities and are generally administered by a Board of Trustees and are governed by Charity Law. If this is the case then there should be no need for additional rules to cover transparency and verification of funds. Where the fund is not run in this way then, yes, there may be a need for minimum criteria such as a statement from internal auditors. It would also be useful if companies published details of the projects supported by the fund on their website.

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

Yes, but it does not necessarily have to be one mark, i.e. it should become instantly recognisable but it is not true to say that one size fits all. The mark should be designed in such a way that a consumer would immediately know they were buying an accredited 'Green' product but within the umbrella design there would be a way of differentiating between renewable and low-carbon products.

**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 needs to be a clear set of minimum criteria /measurements for a product to be assessed against and if it meets the criteria it would be awarded the mark. The criteria could be different for the different types of tariffs, e.g. renewable, low-carbon, reduce and reward. There must be no room for subjectivity within the criteria. The accreditation scheme should be developed once the Guidelines are in place, as these will provide the framework for the development of an appropriate scheme.

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

See above. The accreditation scheme should be capable of differentiating between renewable and low-carbon.

**How should the "stars" be allocated in respect of the carbon indicator and for other environmental benefits?**

We do not agree with the 'star' approach, as this is too limited and subjective. The mark needs to be tailored to the product type. This is a key element that should be developed by the organisation selected to develop and administer the accreditation scheme on behalf of the industry.

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

See above.

**What alternative criteria could be used?**

See above.

**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?

These points have been addressed in the answers to previous questions above but the key remains that the scheme should be fully flexible and adaptable to meet the changing needs of this growing market place.

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

The scheme set up costs and the awareness campaign that will be required to engage consumers should not be met by suppliers but by Government to demonstrate their support of this area and engage them fully in the ongoing development of the scheme. The ongoing costs could be shared between suppliers but this requires further consultation to understand the level of these costs. Cost should also be a consideration when selecting the organisation that is best placed to operate the accreditation scheme. Consideration needs to be given to the longevity of the scheme when selecting an organisation to administer the accreditation scheme.

## EST Consultation Questions

No.	Question	Your Response
1	Do you support the proposed aims of the scheme?	We support the aims of an accreditation scheme to ensure transparency for the consumer making them aware of the range of Green Tariff options available and the environmental benefits associated with their choice. This, backed up with the requirement for suppliers to hold the necessary verification to support any product offering, will support the development of a robust Green supply market.
2	Are there any other aims you think should be included for the scheme?	Since the Green market place is still relatively small, any scheme that is introduced should be adaptable to incorporate new and innovative product development.
3	Do you think that the accreditation scheme should be limited to renewable energy, or should it also cover other forms of low carbon generation where clear additionality can be demonstrated?	We do not agree that such a scheme should be limited to renewable energy only as Green products exist already which can demonstrate clear environmental benefits, e.g. fund based products which support renewable energy projects. Consumers should also be able to choose the type of 'Green' product they want and therefore an accreditation scheme associated to all types of product will provide credibility and increase consumer confidence.
4	Do you agree that the broad definition of green tariffs should be adopted for the purpose of the accreditation scheme, covering green supplies, green funds and carbon offsets?	Yes. Introducing a strict definition of what is meant by a Green tariff would restrict supplier innovation and stifle creativity. This would then reduce consumer choice within the market place.
5	Do you agree that only carbon offset tariffs approved under Defra's carbon offsetting accreditation scheme should be eligible under the green tariff accreditation scheme? If so, should qualifying offsets be limited to renewable projects?	Offset tariffs approved under Defra's accreditation scheme use credits that are verifiable and robust and provide the level of integrity required to build consumer confidence in carbon offsetting. However, EST should remain mindful of the developing nature of the carbon offset market and there should be a flexible process for the inclusion of new offset products (not covered under Kyoto). Also using only offsets verified under Defra's scheme could prove cost prohibitive for the consumer – the consumer may be happy to choose offsets from a non-verified scheme. So long as this is explained clearly in the marketing literature. We do not agree that qualifying offsets should be limited to renewable projects.
6	Do you agree that the scheme should be voluntary?	Yes.
7	Do you agree that the scheme should have UK coverage? If so, are there any specific issues to consider for the devolved nations of the UK in the design of the scheme?	We agree any scheme should have UK coverage whilst ensuring full consultation with all devolved nations and also considering developments in other markets, e.g. Ireland.
8	Do you think the scheme should be targeted at suppliers offering products to both the	The non-domestic market is further developed than the domestic market and governed by a separate system, i.e. LECS under HMRC governance. However, there may be an advantage to including non-domestic customers in that it will

	domestic and the business markets?	encourage the same best practice methodologies of transparency and verification. Business customers may also welcome the introduction of a Green mark, which will assist in enhancing their own Corporate Responsibility credentials. However, care needs to be taken that mandating the inclusion of business customers within the scheme does not impose any further administrative burdens on suppliers. They need to operate within the same broad framework without imposing strict guidelines.
9	Do you agree that participating suppliers should be required to submit all their green offerings for accreditation?	Our view is that any scheme should be voluntary and therefore shouldn't mandate that all products should be submitted for accreditation. This could prove cost prohibitive based on the level of costs being proposed within the consultation. However, it must be clear that the mark will be applied on a per product basis and not be seen to be associated with a company.
10	Do you agree with the main elements proposed for the accreditation Standards?	We agree that whatever scheme is introduced it should be straightforward for consumers to understand and recognisable. The way the individual products are assessed and the compliance is undertaken requires more consultation as the proposed process appears overly onerous.
11	How do you think additionality should be defined for the different types of offering, and what would you consider being the minimum levels required?	Cost to the consumer is a key consideration when determining the definition of additionality and this should be borne in mind when establishing the minimum bar. Consumers may be happy to select a product linked to renewable energy rather than pay a premium for anything that can demonstrate additionality. ROC retrieval may be one way of being additional and our view would be that 5% Roc retrieval would be a suitable amount. However, suppliers should be able to demonstrate additionality in other ways, e.g. diverting money into a fund.
12	Do you support the broad thrust of the proposed accreditation and compliance aspects of the scheme?	The scheme should encompass the initial assessment of any product submitted for accreditation and satisfaction with the method of marketing the product to consumers to ensure adherence with Green Guidelines when published. To help keep scheme costs down verification could be handled as part of a company's own internal audit procedures with a statement issued to confirm scheme compliance.
13	Do you agree there should be a single certification mark for all accredited products?	There are pros and cons. A single mark would be easily recognisable as a Green product and consumers would know what they were purchasing had an associated environmental benefit. However, this does not allow differentiation within the market between products that offer a higher level of benefit. This area requires further consultation. A scheme with various different marks could bring added costs.
14	Do you think that organisations buying accredited green tariffs should also be permitted to use the quality mark to promote their green credentials?	Yes – if the organisation pays to do so. However this needs to be monitored to ensure claims are not being exaggerated, e.g. if an organisation has only purchased enough Green to cover one site they should not be able to use the kite mark across other sites. This also needs to be developed in line with the Defra Green Reporting Guidelines for companies that have been recently amended.
15	Do you have views on the composition of the proposed independent panel to advise on the development and/or	The panel must be independent and should include supplier representation, e.g. ERA along with other key stakeholders such as NGOs.



	ongoing management of the scheme?	
16	Do you agree with the proposed financing arrangements and indicative level of fees?	It is proposed that the Government finance the set up costs and this is important. However, we must consider what would be the expectation if they disagree? Could current revenue streams such as NFFO and SRO schemes administered by NFPA be used? The cost suppliers are expected to bear will be a key factor when gaining support for the accreditation scheme. Consideration should be given to other, more cost effective, ways of monitoring the scheme such as current internal auditing procedures for CSR reporting to ensure suppliers are only picking up marginal costs associated with the operation of any scheme.
17	Do you have any additional suggestions as to how the scheme might be promoted?	There needs to be an awareness campaign developed to inform consumers of the 'Green mark'.