

# Developing Guidelines for Green Supply: Summaries of discussions at seminar and workshops

11 June 2007

## SEMINAR ON DEVELOPING GUIDELINES AND AN ACCREDITATION SCHEME FOR GREEN SUPPLY

### **Voluntary guidelines**

Ofgem set out its initial view that the guidelines would set minimum standards for green tariffs provided by companies who actively signed up to the guidelines. Ofgem stated that it had a preference that the guidelines should be voluntary for reasons of better regulation and to encourage maximum flexibility for suppliers in relation to the development of green tariffs. The majority of participants at the seminar supported Ofgem's view that the guidelines should be voluntary, however participants from NGO's considered that the guidelines should be mandatory in recognition of the importance of the subject matter.

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

Ofgem noted that although we proposed that the accreditation scheme would be linked to the guidelines we were still consulting as to whether accreditation should be a requirement of the guidelines. The outcome of this consultation would depend partly on the development of the accreditation scheme. Participants at the workshop expressed different views as to whether participation in the accreditation scheme should be a requirement of the guidelines.

### **Reducing customer confusion**

Ofgem explained that it considered the primary objective of the guidelines was to increase information available to customers regarding individual tariffs and the context of these offerings in order to reduce customer confusion and ensure customer confidence in green tariffs as well as allowing companies to create a range of innovative tariffs. As part of this Ofgem's view was that tariffs complying with the guidelines should provide additional environmental benefits over brown tariffs.

### **Monitoring compliance with the guidelines**

Ofgem pointed out that it would not have a role in enforcing compliance to the guidelines but that suppliers would obviously continue to have obligations under the Advertising Standards rules overseen by the Advertising Standards Agency. Compliance to the accreditation scheme would be monitored by the accreditor. It was also noted that Ofgem considered misuse of the guidelines a serious issue and would take action it considered appropriate in respect of publicising any such misuse. It was suggested by participants that a list of companies who were not signed up to the guidelines, as well as who had signed up to the guidelines, may also be useful for customers as it would show who were not complying.

### **Use of term "green" and the creation of multiple guidelines**

Some participants were concerned that the use of the term "green" could lead to confusion particularly given the potential inclusion of nuclear generation with respect to low carbon tariffs. It was felt that the creation of separate guidelines for renewables and low carbon could address this issue and that the term "green" should not be used in respect of guidelines for either of these set of tariffs. Instead they could be called guidelines for renewable tariffs, and guidelines for low carbon tariffs respectively.

In addition it was considered that it may be appropriate to have separate guidelines for domestic customers and I&C customers. This was because of the potential differences between the needs of these groups of customers and different issues involved (i.e. guidelines for I&C customers may need to cover CCL regulations and LEC requirements).

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### **Additionality**

Participants felt there were a range of issues associated with demonstrating additionality. These included:

- consideration of double counting of "green" energy issues.
- Need to ensure that tariffs weren't used solely to meet supplier's obligations under the Renewable Obligation;
- Issues associated with demand for renewable generation being higher than supply; and
- Issues with proving additionality from carbon offsets.

### **Star rating scheme**

Participants felt that the star rating scheme proposed by Ofgem appeared complex and confusing and required further clarification. Specifically it was felt that the suggested designation of stars for various aspects of the generation (i.e. carbon rating/ efficiency/ decommissioning) would not necessarily result in customers being able to effectively differentiate the benefits of tariffs offered. One participant suggested that it may be better to have a committee of adjudicators to judge tariffs in order to develop a rating. It was suggested that there would be a need to test any outcome with customers before proceeding.

The reasons for differences between the views of Ofgem and the Energy Saving Trust in developing an accreditation scheme were outlined. The Energy Saving Trust noted that a pass/fail scheme would set a minimum benchmark of a credible green offering whereas Ofgem considered that a star rating allows for differentiation.

### **"Banked" Concepts<sup>1</sup>**

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

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

- Whether the accreditation scheme outlines best practice or a minimum standard for tariffs to comply with.
- Need to resolve issues for I&C and domestic customers resulting from the different aims and potential multi-counting of LECs, ROCs and REGOs.
- Role of carbon offsets in guidelines.

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<sup>1</sup> "Banked concepts" are either points where there was general consensus at the seminar or workshops, or points that were raised by participants that Ofgem identified as requiring further consideration as an outcome of the consultation process.

**25 June 2007**

## **WORKSHOP 1: RENEWABLE ADDITIONALITY**

### **Concept of additionality**

Ofgem stated that the concept of additionality is intended to ensure that customers can trust that by purchasing a "renewable tariff" they are contributing to additional renewable generation, development of new renewable generation or another environmental benefit. It was considered that there was a need to develop clear criteria for what "additionality" is without making more rules to define additionality.

Ofgem advised that the primary objective of the guidelines is to ensure that customers are given clear information as to the benefits associated with the tariff. Secondary to that, the guidelines aim to ensure that the benefits provided by a renewable tariff are over and above those provided by the RO. One participant suggested that investment in renewable heat could be a means of avoiding problems associated with demonstrating additionality for projects which earned ROCs. Other participants agreed this could potentially be a way forward. It was noted by Ofgem that it maybe more appropriate that the source of heat generation be the basis for the tariff.

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

There was general consensus that additionality would occur when demand for renewable generation exceeded the supply, as then the normal forces of supply and demand would come into play sending out investment signals in respect of renewable generation. Providing sufficient information was available, the supply and demand signals could be properly tested. It was considered that the current uncertainty and confusion amongst customers in respect of green tariffs could be frustrating the application of these signals.

In order to reduce this confusion, the majority of participants at the workshop considered that there was an onus on suppliers to provide sufficient information to educate the customer of the "extras" associated with the tariff as opposed to the brown tariff baseline. This would help customers decide whether they want to spend extra for the specified environmental benefit. These participants considered that rather than including detailed requirements regarding the forms of additionality required, the guidelines should concentrate on ensuring this information was available.

### **Minimum requirements for additionality**

There was split opinion as to whether the guidelines should then also include minimum requirements for additionality in addition to the increased information specified above. Broadly 60% of the participants considered this was necessary and 40% that this was not necessary.

Participants pointed out that the concept of demonstrating additionality of renewables has been very difficult due to the co-existence of REGOs, LECs and ROCs. Issues with double and triple selling renewable generation causes customers' concern which results in a lack of confidence as to what the tariffs offer. A number of participants considered that customers generally associated renewable tariffs with renewable supply and therefore to reduce confusion in this area, a minimum requirement of REGO backed supply was proposed.

Some discussion took place regarding the benefits associated with retiring ROCs. The majority of participants considered that there was little or no real value in respect of renewable generation as a result of retiring ROCs. These participants considered that as a result of the application of the buy out mechanism, any benefit received from retiring ROCs was in favour of the suppliers who hadn't retired ROCs, which could create perverse incentives.

### **Strawmen models**

In order to develop these proposals further, two groups of participants were asked to develop proposals in respect of increased information provision and minimum requirements on additionality respectively.

1. The first group were invited to work up the information requirements which would increase the information available to consumers, hence allowing customers to make their own decisions regarding additionality. Participants were asked to develop a strawman for this proposal concentrating on identifying the information that needs to be provided and looking at a standard format for presenting this information. (Volunteers to develop this model: British Energy, Susan Hill, Energy Retail Association and Ecotricity)
2. The second group were asked to set out in more detail proposals regarding the minimum standards that should be set out in the guidelines in respect of additionality. It was suggested that this option could be used in conjunction with, or separately from, the above proposal. (Volunteers to develop this model: NCC, AEP, Good Energy, Energy Retail Association and Renewable Energy Association)

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

There was some general discussion regarding tariffs which specify contribution to renewable funds. During this discussion the following points were raised:

- Customer confidence in renewable funds is essential. Compliance/management of risk/verification processes are required to alleviate customers concerns about the funds;
- Suppliers needed to provide information regarding what the fund was contributing to (when the project is taking place, what form of technologies is being used, why contribution from a renewable fund is needed to support the project);
- Funds should be placed in a separate "ring fenced" fund rather than companies normal accounts;
- Potential need for advisory board overseeing fund investments;
- Audits are essential;
- Difference of opinion as to whether renewable funds per se could constitute a renewable tariff or whether renewable tariffs needed to be associated with renewable supply with funds constituting an extra benefit.

### **Banked Concepts**

- Separate guidelines are required for renewable and low carbon tariffs
- 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.
- 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.
- 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).
- 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.
- The renewable funds need to be appropriately managed to ensure it is invested into new renewable generation.

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

- What guarantees are available to ensure that a renewable fund will result in new build generation?
- Outstanding consideration of two strawmen models being developed by groups.

**3 July 2007**

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

### **Support for separate guidelines**

There was general support for the creation of separate guidelines for renewable and low carbon tariffs. However, some participants considered it was more appropriate to remove "green" and "low carbon" as terms used to describe the tariffs, instead using the source of generation (nuclear, coal, gas and CHP) as the basis for the guidelines. Some participants were concerned that the creation of low carbon guidelines could be more time consuming than the creation of renewable guidelines and were keen that in these circumstances, the renewable guidelines could proceed in advance of low carbon.

It was recognised that there was the potential for overlap between the guidelines as tariffs who comply with the renewable guidelines would be likely also to have good low carbon credentials. There was a possibility that separate accreditation schemes for renewable guidelines and low carbon guidelines may be needed.

### **Demand for low carbon tariffs**

A few participants considered that the low carbon guidelines were not necessary at this time as there wasn't proven customer demand for such tariffs. Ofgem pointed out that our customer research suggested that there was some demand for low carbon tariffs. It was suggested that it may be appropriate to carry out more research in this area. One participant noted a recent study looking into the potential to extend the Fuel Mix Disclosure (FMD) requirements across the rest of Europe which found there was a huge amount of innovation already taking place in renewable and low carbon tariffs and that a number of low carbon tariffs were already made available in this respect.

### **Additionality**

Some participants were concerned that low carbon tariffs were seen to give a real benefit over brown tariffs. There was a concern that suppliers could move all low carbon generation (from their baseline mix) out of brown tariffs and into low carbon tariffs without increasing their overall low carbon generation. In order to address this participants suggested requiring suppliers to provide information regarding the carbon emissions associated with their brown tariffs as well as their low carbon tariffs.

One participant pointed out that some customers would be put off low carbon tariffs which included nuclear and that it was important to understand what information customers would need, to be able to make an informed decision in this regard.

### **Information provision**

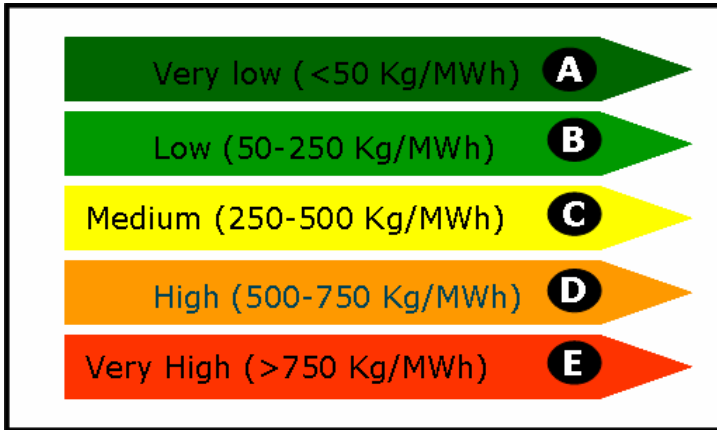
In respect of information provided to customers, it was agreed that it may be appropriate to provide customers with details regarding the volume of CO<sub>2</sub> produced in terms of Kg per MWh as an indication of the carbon intensity of the electricity offered by a tariff. It was suggested it maybe more practical to group such details within band widths in order to minimise burden on suppliers and increase clarity of customers. In order to ensure these measures were relatively easy for suppliers to provide, it was suggested that to calculate this information average emission data for the type of generation mix was used. In addition, it was suggested that it may be appropriate to include a caveat as part of the bands which set out that the banding system did not incorporate life cycle carbon emissions

To ensure that the low carbon generation was additional, it was suggested that the supplier obligation regarding FMD could be linked with the proposal to show the carbon intensity of low carbon tariff to allow a comparison with the suppliers overall fuel mix. It was noted that this approach would enable customers to see the benefits of moving from one tariff to another while remaining with the same supplier.

Claims made by suppliers would be audited only if these suppliers were signed up to the accreditation scheme and therefore it would appear more appropriate through this vehicle.

### Minimum bar

Discussion took place as to what the appropriate minimum bar should be for low carbon tariffs. Participants suggested that by giving carbon emissions in bands, tariffs that fall within the lowest two bands could be considered "low carbon" and tariffs falling within other bands would not. These requirements could be placed within the guidelines. The group considered that the bands could be as set out in the following diagram.



### Creation of strawmen models

Ofgem agreed to develop two strawmen regarding the proposal to create bandings for low carbon tariffs based upon the discussion at the workshop. The bandings would be based upon the carbon intensity of the tariff and would enable customer choice, on the basis of their preferences with respect to carbon, in relation to these tariffs.

1. Under this approach carbon offsetting would be integral to the bandings. As such, if relative carbon emissions for a particular tariff were reduced as a result of a carbon offset scheme it would be possible for suppliers to move to a lower carbon intensity band.
2. Under this option 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".

**9 July 2007**

**Workshop on Accreditation Scheme  
Process for selecting the accreditor**

**Energy Saving Trust's role**

Ofgem stated that we fully supported the work that had been, and was being carried out by the Energy Saving Trust with respect to the accreditation scheme. Ofgem considered that the guidelines would lay down minimum requirements relating to the accreditation role (i.e. 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 stated that we considered Energy Saving Trust fulfilled all of these requirements.

There was some discussion regarding the role of the Energy Saving Trust during which Ofgem made clear that the accreditation scheme would be owned by the industry and it would be up to the industry to select an appropriate certifier. As stated above, Ofgem considered that the Energy Saving Trust would fully meet the requirements to fulfil this role but recognised that there were other potential certifiers who could also fulfil this role. Some participants considered that Ofgem may need to have a role in facilitating this process. It was also suggested that it may be appropriate to involve the British Standards Institute (BSI) in this process. The BSI representative advised that they were a national standards setting body that had a MoU with DTI on behalf of Government to help set standards. British Standards Institute noted that they would be happy to work with Ofgem and the Energy Saving Trust to develop standards for an accreditation scheme for green tariffs.

It was considered that there would be a need for one accreditation scheme per set of guidelines.

**Energy Saving Trust Proposed Accreditation Scheme**

**Marketing of the scheme**

The Energy Saving Trust clarified that it envisaged that the accreditation scheme providers would have a role in marketing the accreditation scheme. This would be an educational role to promote awareness of the scheme's "badge", increasing customer trust and ultimately the demand for green tariffs with the "badge" rather than a role in marketing any specific tariffs certified under the scheme.

**Inclusion of carbon offsetting scheme**

The decision to include offsets (Defra Code of Practice compliant and non compliant) within the accreditation scheme was considered. The dialogue focussed on the issues of whether to focus upon solely UK based offsets or allow international offsets, as well as whether offsets should be included in both low carbon and renewable schemes. Some participants considered that if carbon offsets were to be included this should be restricted to those complying with Defra's code of practice.

**Mandatory/ voluntary**

The scope of the accreditation scheme was discussed in terms of whether it should be mandatory or voluntary and whether it would cover the supplier or the tariffs submitted by the supplier. It was considered that whilst the participation in the scheme should be voluntary, the requirements of the scheme would be mandatory if suppliers wanted to have accreditation.

There was discussion as to whether a supplier who had more than one renewable tariff could obtain accreditation in respect of one tariff but opt out in respect of its others. There

was a difference of opinion on this issue, a minority of participants expressed concern that allowing a supplier to certify some but not all of its renewable tariffs could cause confusion for customers. The majority of participants considered that suppliers should have the flexibility to badge individual tariffs and that any confusion could be mitigated by appropriate advice regarding marketing. It was considered that suppliers use of the accreditation scheme "badge" for products would be covered by advertising standards requirement not to mislead customers in marketing products.

#### **Qualities of the accreditation provider**

To manage the scheme it was noted that the accreditation provider would be need to be sufficiently financially robust and stable to ensure that it could oversee the operation of the scheme for the length of time that it undertook the role.

#### **Use of badge**

The issue of whether to allow customers of an accredited product to use the "badge" in their own marketing was debated. While some participants saw advantages in allowing customers to use the badge, others felt it may not be appropriate.



**16 July 2007**

**Workshop on Additionality in Guidelines**

**Renewables Additionality**

REGOs are the simplest and most robust way to demonstrate that electricity has been generated from renewable sources although there are issues associated with reduced flexibility and the fact that microgeneration is not part of the definition were recognised.

Although there was 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.
- Supply for overall fuel mix should be displayed with fuel mix for green tariff
- Renewable tariffs should be tariffs that result in the generation and supply of additional renewables only.

**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
- 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;
- Disagreement as to whether further requirements relating to additionality should be included. Such forms could include retiral of LECs/ potentially differentiations between % of REGOs that need to be provided (i.e. 10%, 25, 50 100%)

**Information Strawman**

There was concern that not agreeing a standard format for suppliers to present this information would cause customer confusion or create mistrust. It was suggested that there be two "layers" of information to meet the information requirements of different customers. The first layer would be the badge to acknowledge that the tariff met the minimum requirements, a second layer would then provide current and potential customers with more detailed information that was clear and uniform between suppliers.

**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.

**Additional Work for Suppliers**

Ofgem was keen that more information should be provided to customers based on the contribution that customers are already making wrt the Renewable Obligation and potentially the Energy Efficiency Commitment. Suppliers were asked to develop further the strawman model taking this into consider. In doing so they suppliers should consider:

- Format – How the information is provided; and
- Scope – How the information is presented and what information is presented.

Suppliers were asked to prepare this model by 6 August 2007.