brighter business energy

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Dear Clair,

Cutting the green customer confusion – next steps

We welcome the opportunity to provide comment on the above. This response can be treated as non-confidential.

Chapter Three (Getting to grips with the detail)

Q1 – Do you think that the provision of greater information will empower customers to make more informed decisions regarding their environmental preferences associated with supply tariffs, thereby providing an indication to suppliers of customer demands for renewable or low carbon forms of generation?

Good quality and relevant information should empower customers to make more informed decisions. The Guidelines will provide clarity in this complex area and provide for consistency across supply businesses in terms of what constitutes a renewable or a low carbon supply. We support the introduction of a corresponding certification scheme, such that customers can be provided with the necessary assurance that the service they have bought from their supplier is what their supplier delivers.

Q2 – Do you consider it appropriate for the guidelines to be voluntary where companies 'sign up' to comply with both the guidelines and accreditation scheme?

Suppliers will have a market-based incentive to 'sign-up' to the guidelines (certification mark etc) such that we do not believe it is necessary to make the guidelines mandatory at this stage. It is essential that suppliers also sign up to independent accreditation such that compliance with the guidelines or otherwise can be proved. This could be made a requirement under the guidelines.

Q3 – Do you think that the guidelines, as currently drafted, are appropriate for non-domestic customers or would changes be required to facilitate this?

We fully support the inclusion of the non-domestic market within the guidelines. It is essential that the rules around evidence of supply in particular are consistent across all customers such that one unit of renewable electricity is sold only once. For renewable supply, the evidence of supply needs to be the REGO/GoO and for low carbon it should be generator declarations.

This means that Defra's guidelines for greenhouse gas conversion factors will need to be changed accordingly such that they are consistent with Ofgem's guidelines for renewable and low carbon supply. We are pleased to note that the implementation of Defra's guidelines has been postponed until this consultation has been finalised in recognition of this issue.

There is a market for a stated percentage of supply from renewable technologies rather than 100% particularly in the non-domestic sector. This product may for example appeal to business customers with a large annual consumption. Companies will be keen to market their corporate social responsibility, so it would be helpful if this product offering came under Ofgem's guidelines for renewable and low carbon supply.

Q4 – Do you think that the guidelines, as currently drafted, are useful for companies to market their corporate social responsibility?

Yes, but see our answer to question 3 above regarding Alternative 2 (stated percentage of renewable supply).

Q5 – Do you consider that it is appropriate for separate sets of guidelines to be created for tariffs sources from renewable generation and those sourced from non-renewable low carbon generation?

We tend to think there is sufficient overlap such that there is no need for two separate sets of guidelines.

Q6 – Do think that it is appropriate for suppliers to provide information to customer regarding the contributions that they are already making to Government sponsored environmental programmes?

It is a complicated area and there is certainly potential for confusion. For example, some customers may misinterpret the RO legislation as an obligation on suppliers to purchase a specified physical percentage of renewable energy rather than recognising that this is a financial mechanism for providing the renewable sector with additional funding.

We do not believe that the supplier should be required to always include in any marketing material detailed information on government sponsored programmes such as for example the RO. But instead this information could be made available on the suppliers' website where relevant. Also, we would expect any supplier to respond appropriately to any questions a customer might have with regarding this area.

However, all customers provide financial support to the development of renewable technologies and promotion of carbon reduction. This could be directly via the Renewable Obligation, or indirectly via increased transmission costs and losses, BSUOS etc. Arguably this information is in the general public interest. We therefore think that it is appropriate to provide this information to the customer this information. We would suggest that Ofgem rather than suppliers provides the words and

derives the figures (e.g. p/kWh for a typical domestic customer and a p/kWh for a typical non-domestic customer). There may be some variation across supply businesses in terms of how much of the cost is recovered from their customers. However, we suspect that the variation from an average is probably fairly small as a percentage and it would be helpful to have a standard figure.

Q7 – Do consider that information regarding the environmental benefits associated with 'green' supply tariffs should be provided to customers in a standardised format, and if so, what key information should be made available by suppliers to customers at the point of sale?

When choosing a product offering environmental benefits, we see that there are three distinct aspects of a transaction that a customer should be interested in:

i. Firstly; the nature of the power being used to back the supply. This is important as the whole purpose is to allow customers to select a preferred carbon footprint of their underlying power.

ii. Secondly; the nature and corporate responsibility of the company providing them with the services. Customers may wish to discriminate against those who are fundamentally taking the environment very seriously and those who are paying lip service to it by acquiring on the open market products to offset their underlying poor carbon position.

iii. Finally; what over and above the basic product is being offered or supplied. This is described as "additionality". It is not possible to demonstrate that an additional MWh of electricity has been generated as a result of a customer signing a particular tariff. Unfortunately this is what customers expect to see. What you can demonstrate and prove is that as a result of signing up for a particular scheme there is a change in financial flow which, within a normal market context, will induce a change in behaviour. Thus all actions in this category tend to be of a fiscal basis in a normal competitive market.

With respect to carbon-emissions (point (i)), the calculation should be standard across the industry and we agree that this should be presented in a standardised format to aid comparison.

The nature and corporate responsibility of the company will vary across suppliers. Information on the fuel mix is already provided to customers in a standardised form via the Fuel Mix Disclosure. But other information such as for example company policy can not be standardised.

Our comments relating to additionality are given in question 11. We do not believe that this area can be standard in format.

Q8 – Should evidence of supply be linked to the Fuel Mix Disclosure obligations, with the sub-division of renewable generation to identify a particular technology or source?

We believe that REGOs/GoOs should be the only evidence of renewable supply and this would be consistent with the Fuel Mix Disclosure. However, the Fuel Mix Disclosure is retrospective whereas supply at the point of sale if prospective.

Suppliers will therefore need to forecast customer usage in aggregate over a particular renewable tariff and then purchase REGOs etc. accordingly such that they comply with the basis of the product offering. Renewable technology is susceptible to fluctuations in generation especially as some technology is dependent on the weather. It would be unreasonable to expect an exact match each

year. There needs to be a system of banking and borrowing from one year to the next. We would suggest the CCL system of balancing and averaging units over two years should be used.

If a supplier is offering a renewable supply backed tariff but not specifying the technology then the sub-division of REGOs into technology bands is not relevant. If on the other hand the supplier is offering a tariff on the basis that it is backed by a particular renewable technology, then the supplier will need to purchase the appropriate number of REGOs associated with that technology. Again there would need to be a system of banking and borrowing from one year to the next to account for demand and generation fluctuations.

Q9 – Should LECs be provided by suppliers in respect of renewable or low carbon tariffs where available?

Definitely not, this would have a number of inappropriate and undesirable impacts. These are detailed below:

- The value of the REGO associated with REGO-only generation will rise by a value close to that of the LEC. Thus plant that in 2001 was deemed by Treasury not to need the support of LECs will get a similar financial boost. Alternatively suppliers with this REGO-only generation will have a competitive advantage compared to other suppliers offering renewable generation backed products.

- European Guarantees of Origin (GoOs) are likely to considered acceptable evidence of renewable supply. Therefore we would expect GoOs that do not have a LEC attached to also trade at a premium approximating to the value of CCL. GoO-only generation will get additional funding from the UK

- Suppliers will need to recover the cost of cancelling LECs. Thus non-CCL paying customers will be paying a premium compared to CCL-paying customers of approximately the CCL value in order to have their supply backed by renewable generation. This is somewhere in the order of £4.41/MWh and we believe this could provide an artificial barrier to this important area (especially when there is no additional environmental benefit associated with cancelling a LEC). It is also discriminating against domestic customers and especially the less affluent members of society.

- Cancelling LECs rather than selling them to CCL-payers means that less LECs are presented than originally issued. The tax revenue to the Treasury will thus be higher as a direct result of a domestic customer's choice to purchase renewable-backed supply. This could be perceived by the domestic consumer as a "green tax" i.e. a tax on consumers who have elected to purchase electricity supply supported by renewable generation. This is not aligned with our perception of government policy in terms of taxation. Furthermore it does not seem appropriate especially when you consider that there is no guarantee that this extra money into the Treasury will result in additional funding for the renewable generation sector or any other environmental project.

- Our understanding is that one of the key principles of the LEC was "revenue neutrality"; the amount paid out by CCL paying customers would be received back via National Insurance.

Requiring suppliers to purchase LECs on behalf of non-CCL paying customers moves away from this principle.

There does not appear to be any associated benefit with suppliers providing LECs as proof of renewable or low carbon supply alongside the REGO/GoO or generator declaration. If the REGO/GoO is the only evidence of renewable supply then this would seem much more straightforward especially as some technologies have an associated LEC and others do not. Similarly having only one certificate for each unit of low carbon supply seems the most appropriate. One of the aims of the certification scheme is to avoid double-counting. Thus if a supplier is using LECs rather than the appropriate certificate (e.g. REGO, GoO or generator declaration), then this non-compliance will be visible.

Q10 – What, in your opinion, would be the costs associated with the administration of a centrally administered 'green' fund?

No comments

Q11 – Do you agree with our assessment of the 5 options available to measure additionality including BE's and Centrica's proposals?

Improved Transparency

We fully support the comments made with respect to improved transparency. If there were to be a list within the guidelines of approved methods for demonstrating additional environmental benefit then this would unnecessarily reduce the scope for future innovation by suppliers and thus restrict customer choice. It is far more appropriate to instead improve the quality of information to customers such that they can make an informed choice.

Furthermore, the market for "additional environmental benefit" is much broader than the energy market. Some services may well in their entirety be capable of being provided by someone else other than an electricity supplier. We do not believe it would be valid or appropriate for suppliers to try and develop a rating system for additionality (e.g. one star for contributions to a renewable fund, two to three for elements of carbon-offsetting etc.).

ROC Retirement

We have doubts about ROC retirement as a mechanism for achieving additional funding in the renewable sector. We agree that there is not necessarily a direct link between retiring ROCs and new investment in the renewable generation sector. However, we do not believe that suppliers should be prevented from marketing this service and demonstrating as appropriate an environmental benefit associated with their particular scheme. Information about this service would come under the improved transparency approach.

Centralised 'green' fund – We do not believe that suppliers should be mandated in terms of offering a centralised green fund. We agree that this would stifle innovation. However, a centralised fund on a voluntary basis as a concept is worth considering. Some customers may well feel more comfortable with a fund administered by a board of trustees and if the fund was of sufficient size then a board of trustees would seem appropriate and cost-effective. This option could also be attractive for suppliers with a lower customer-base as combining contributions with other suppliers provides for a much larger fund; critical mass is maintained and a range of initiatives can be supported.

However, the proposals for a centralised fund at this stage are not well-developed and therefore we are not in a position to comment with respect to whether this is something we would support. Given the timetable (see our answer to question 19), then in terms of the delivering the guidelines we would recommend that this option is excluded to allow time for further debate and assessment of this area.

De-Centralised 'green' fund – It would not seem appropriate to prevent individual suppliers from developing their own offering in terms of a green fund. We agree that this may stifle innovation. However, there is potential for reduced transparency. We would therefore support the introduction of guidelines in terms of providing customers with assurance that there is appropriate separation between green fund administration and the individual supply business.

Hybrid approach – We have assumed by "slicing and dicing" this means taking the residual fuel mix and if this includes an element of renewable generation then using this to back the sale of renewable supply tariffs rather than purchasing the equivalent volume of REGOs. If we have interpreted "slicing and dicing" correctly, then this practice would no longer be possible with the introduction of guidelines for evidencing renewable supply (i.e. the REGO or GoO) and an associated certification scheme. The certification mark should therefore address this concern.

We are not clear on customers' perception of "over and above a supplier's legal obligation". This could well be addressed through clear and accurate information (see our answer to question 6). There is no obligation on suppliers to purchase a minimum physical amount of renewable generation nor is there an obligation on suppliers to purchase a minimum amount of REGOs. Thus a supplier could have a below average fuel mix (lets say 3% renewable) and still fully meet their legal obligations in terms of renewable technology as the support is financial rather than physical.

If consumers are prepared to pay a premium for renewable supply and the REGO is the recognised evidence of renewable supply, then under normal market conditions we would expect the value of the REGO to be determined by whatever premium the market associates with renewable generation. If the REGO does have a value, then by purchasing accredited renewable supply the customer is providing direct additional funding in to the renewable electricity generation market. We do not necessarily see that there is anything wrong with this, particularly as the customer will have improved transparency regarding the financial contributions all customers make towards the renewable sector. By choosing a renewable supply tariff they are providing a signal to the market.

The "hybrid approach", however, potentially introduces a market distortion. If suppliers can not charge a premium for a renewable supply tariff, then the financial pull on REGOs is restricted. This reduces what would otherwise under normal market conditions provide a signal for additional renewable generation.

We are also not clear how this approach fits with the proposal for an obligation on suppliers to retire LECs when providing renewable-backed supply to domestic customers. There is a cost associated with cancelling the LEC, but in our view no demonstrable associated environmental benefit (see our answer to question 9).

Chapter Four (Updated Proposals)

Q12 – Do you think it is appropriate that renewable tariffs should comprised 100% renewable electricity or a stated percentage?

We would support Alternative 2. We see nothing wrong with offering customers a renewable supply tariff with less than 100% of the supply backed by renewable generation provided that the percentage is made clear on any marketing material and at the point of sale.

It would seem sensible to include these tariffs under Ofgem's guidelines and ensure that these tariffs are certified.

Q13 – Is it appropriate to rate supply tariffs by their carbon intensity to allow at-a-glance comparison of difference offerings made by each supplier as well as competing tariffs across different suppliers?

If the tariff is offering environmental benefits then the carbon intensity associate with supply should be provided. This is an important consideration for the customer in choosing one tariff with environmental benefits over another. This would cover not only renewable or low carbon supply tariffs, but any tariff offering an associated environment benefit such as standard supply with "green fund" etc. The carbon-intensity with respect to a tariff with standard supply but some other associated environmental benefit would need to be indicative. These customers may also be interested in a supplier's overall fuel mix and this is already provided via the Fuel Mix Disclosure (albeit this is a retrospective figure).

We do not believe it is necessary for suppliers to provide the carbon intensity for all individual tariffs including those offering no environmental benefit. Customers comparing one standard tariff with another are making their decision on factors such as price and service rather than carbon-intensity.

If at-a-glance figures at the point of sale were required, then this would be under the assumption that each individual supplier could provide a reasonable estimate of the underlying fuel mix supporting their tariffs. For suppliers with their own generation backing their supply business, then this may be feasible. However, for those purchasing electricity from the wholesale market then this could prove problematic. The previous years figures could be used, but we have no feel for whether this would provide a reasonable estimate. It would depend upon the uptake across the industry year on year of low carbon and renewable tariffs.

Q14 – What is an appropriate treatment for electricity that is not supported by a REGO or generator declaration in order to calculate a tariff's emission intensity?

Any electricity which is sold on the basis of being backed by renewable or low carbon supply needs to have an associated REGO or generator declaration. This needs to be accounted for centrally, such that an accurate "residual" fuel mix can be calculated. If this is not done, then the residual fuel mix will be over-estimating low-carbon generation. For example, nuclear represents approximately 20% of the UK fuel mix. If a large proportion of this is sold via low carbon tariffs but not accounted for centrally, then the residual fuel mix will include more nuclear than it should hence calculated carbon-intensity could be significantly under-estimated.

Although retrospective figures could be provided, forecasting the emission intensity of a tariff not supported by a REGO or generator declaration could prove problematic (see our answer to question 13).

Q15 –Is it appropriate to calculate carbon intensity using standardised emission factors at the point of generation, and recognising the lower emission of certain technologies e.g. CCS and CHP?

Yes, standardised emission factors should be used and these should be banded by technology for practical purposes. There should also be scope for review as the average emission factors associated with technologies may change over time.

Q16 – Should CCS be treated as a low carbon technology or should the carbon technology sequestered be included in the calculation of emission intensity?

CCS should be treated as low carbon technology. When calculating the associated carbon emissions, it should seem appropriate to consider only atmospheric pollution. Hence the stored carbon should not be included.

Q17 – Are the illustrative bands presented in this document appropriate? If not, how should they be amended?

We do not agree that biomass should be classed as Band F. BERR have classed biomass as 'carbon-neutral' because the carbon dioxide released during the generation of energy is balanced by the carbon absorbed by plants during their growth. If the government are comfortable with this principle of 'carbon-neutrality' (and to us it appears reasonable) then biomass should be in Band A.

Biomass qualifies for ROCs, LECs and REGOs and therefore it is a supported technology. However, putting it in Band F makes it an unattractive technology. It is unlikely that suppliers would want to market this technology as renewable supply since for the consumer this would create confusion and mistrust; on the one hand the supplier is marketing this product as renewable but on the other the associated carbon emissions are classed as "very high".

Q18 – Who should be responsible for setting the low carbon bands?

Suppliers should be responsible, but their decision should be subject to Ofgem approval.

Q19 –Should the bandings adjust over time to reflect a growing commitment to reduce the carbon intensity? Are the 2020 or 2050 targets the most appropriate basis on which to make these adjustments?

Some stability would seem sensible to avoid confusion and provide a consistent message to the public. However, there should be some flexibility to allow sub-division of a band at a later date where this is deemed appropriate.

Chapter Five (Next Steps)

Q20 – Do you agree with our proposals to progress compliance with the guidelines and development of the accreditation scheme?

This is a complicated area and the guidelines impact other areas of legislation. We therefore consider that the timetable is very optimistic.

For the guidelines to be successful, then they must be effective, robust and consistent with other legislation and government policies. There is a very real risk that if they are rushed through too quickly then the whole purpose of the guidelines in terms of reducing consumer confusion and providing assurance is undermined.

I trust that these comments are helpful. Should you wish to discuss further, then please do hesitate to contact me.

Yours sincerely,

Keith Munday
Commercial Director