British Energy

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Dear Clair

Cutting the green customer confusion – Next Steps

British Energy is the UK's largest low carbon generator of electricity, producing around one fifth of the UK's electricity requirements. It owns and operates the UK's eight most modern nuclear power stations with a combined capacity of approximately 9600MW together with the 2000 MW Eggborough coal-fired power station. British Energy plays a major part in helping the UK meet its emissions targets. In 2006/07 our nuclear stations avoided the emission of 33.7 million tonnes of CO2 (MtCO2) that would otherwise have been emitted had the same output been generated by fossil fuel stations. This is equivalent to removing around half of the cars from the UK's roads. British Energy is also one of the largest suppliers of electricity to the UK's industrial and commercial sector.

It is in this context that British Energy welcomes the opportunity to comment on Ofgem's consultation on cutting green customer confusion. Our comments are set out below.

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

In our view, consumers in the UK are becoming more and more aware of the links between carbon emissions and climate change and as a result are increasingly prepared to change their purchasing behaviour, away from high emitting products and tariffs, towards lower emitting ones. We also believe that when consumers are equipped with the relevant information that they can trust, their purchasing patterns will send clear market signals to suppliers, stimulating the development of new low carbon generation, making the business case for the life extension of existing low carbon generation and the closure of high emitting generation. The net effect of these actions has the potential to make a significant contribution to the UK's emissions reduction targets.

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

In line with Better Regulation Principles, regulation should only be introduced where there is a clear case to do so. Initially at least, the guidelines should therefore be voluntary. Furthermore, these guidelines are being modified in response to a need for more clarity identified by consumers, who are voluntarily seeking certain types of low carbon supply products. In recognition of this bottom up

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approach Ofgem should initially introduce voluntary guidelines rather than imposing mandatory requirements.

It should however be noted that there are a number of mandatory mechanisms in this arena including Defra's upcoming Carbon Reduction Commitment (CRC) which do require a rigorous and consistent approach. For that reason it is perhaps best to recognise that while it is not currently appropriate for the guidelines to be mandatory, there will almost certainly come a time when this is required.

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

In principle the same issues with green supply offerings apply in the domestic and non-domestic sectors. However, non-domestic customers and their suppliers will almost certainly have different requirements and expectations in this regard than domestics, so the Guidelines would probably need to be flexible enough to accommodate this. There are two particular areas where the domestic and non domestic sector differ, the level of detail required and way in which prices are quoted.

Non-domestic customers are likely to require more detailed information than is perhaps appropriate for domestic consumers. For example, accurate quantitative data on the emissions intensity (gCO_2/kWh) would both facilitate comparison between suppliers and align with recent developments in company reporting practices for such things as carbon footprinting, CSR reporting or submissions to the Carbon Disclosure Project. In our view the non domestic sector is increasingly moving towards an environment where end users take responsibility for the carbon emissions associated with the products and services they purchase. For that reason, in the non domestic sector the specific emissions factors should be included as well as the banding suggested. This information would make the completion of footprinting calculations more credible, accurate and easier for companies to verify.

The second significant difference between the domestic and non domestic sector is the display of pricing information. In the domestic sector this is usually via a simple tariff structure whereas the non-domestic sector generally has individually negotiated price matrices reflecting various factors including total volume, demand profile etc. For this reason the recommendation in the consultation document (4.43) that 'No premium be charged for tariffs marketed as low carbon', should not apply in the non domestic sector. In fact if this principle were applied in the non domestic sector it would work against the desired aim of creating market signals for investment in new low carbon generation.

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

As stated above non-domestic consumers have additional reporting needs as part of their various CSR, public relations and investor relation publications. Specifically they are now becoming regularly required to verify their carbon footprint and publish it in their CSR and other reports. These guidelines present an opportunity to facilitate this reporting by providing the specific emissions factor (gCO_2/kWh) associated with their electricity consumption. This would have the twin benefit of making carbon footprinting more accurate and allowing a more detailed comparison between tariffs and suppliers.

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

The original consultation process highlighted two main requirements from consumers which would help them make better informed choices between tariffs with regards to climate change issues. The first was the need to be able to quickly and accurately compare between tariffs on the basis of their carbon intensity (gCO_2/kWh) and the second was the ability to determine whether the fuel source was renewable or not. To address both these issues requires a set of guidelines that discloses both the emissions intensity and whether they are renewable or not.

The proposal which was detailed at the Ofgem follow-up workshops to produce a banding for tariffs based on carbon intensity (gCO_2/kWh) is an ideal mechanism to address the first requirement and the proposed renewable 'kite mark' is an ideal solution for the second.

Assuming that the current guidelines use 'point of generation' emissions factors it is possible that a product or tariff which attained the renewable kite mark denoting 100% renewable power would, by implication be A-rated power. It is however, important to view these guidelines as a critical milestone on a journey towards a polluter pays mechanism for carbon. Therefore in order to 'future proof' this process there should at least be scope for it to evolve towards the best practice of using lifecycle analysis (LCA) in the emissions calculations. This improvement would lead to the possibility that a 100% renewable power product or tariff would not in fact be A-rated. Separate guidelines would have no way of representing this level of detail. For this reason we see no reason why these two elements should not be seen as two parts of the same set of guidelines. For the avoidance of doubt this proposed change would mean that anyone using the renewable kite mark should also display the banding detailing emissions intensity.

Do you 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?

These guidelines should effectively inform consumer choice in such a way that market signals can be sent to suppliers. The best way of achieving this is for environmental information to be provided to customers in a standardised, easily comparable format.

Regarding the specifics of what environmental information should be disclosed, it is important that this reflects the central issue being addressed through these guidelines – i.e. climate change. The critical information is therefore the carbon intensity of the tariff (gCO_2/kWh). However, we recognise that there are a significant number of consumers who also value the ability to determine whether their fuel source was renewable or not and this should also be reflected in the guidelines.

British Energy firmly supports the view expressed by Ofgem at the workshops that these guidelines will directly lead to carbon abatement through market forces and that this should therefore legitimately be viewed as 'additional'. It has been mentioned however that some consumers may also want assurances that any specific extra charges that they are paying for a particular tariff or product are going to be invested explicitly in new additional generation projects. In order for these guidelines to meet this latter need too (and provided it is possible to display this 'project additionality' accurately and verifiably) then this should also be considered. If, however this attribute cannot be displayed in a credible and verifiable way, then we believe that it will do more harm than good to the overall process to include it at this stage.

Should evidence of supply be linked to the fuel mix disclosure obligations, with sub-division of renewable generation to identify a particular technology or source?

As stated above, these guidelines should be seen as a welcome and critical milestone on the journey to a robust, consistent and verifiable mechanism through which carbon emissions can be accurately accounted for. If they are to continue to be current and relevant it is important that they are regularly reviewed to ensure they continue to reflect the best practice, the current level of consumer understanding and the availability of relevant information.

Our view is that customers should have enough information to assess the total environmental impact on climate change that the product or tariff they purchase is making. Therefore ultimately the lifecycle impact should be used instead of the 'at the point of generation' mechanism that is currently used for DBERR's fuel mix disclosure. However, we accept that in order for this first step on the journey to taken point of generation approximations published by BERR as part of the fuel mix disclosure are an appropriate initial measure..

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

We fully accept the Ofgem assessment given in the consultation document of the treatment of LECs. The critical issue with regards to the various certifications present in the market, including LECs, is to ensure that the electricity that they represent cannot be sold more than once, and the guidelines should be structured to ensure that this cannot occur in either the domestic or non domestic sector.

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

We do not anticipate there being any significant costs associated with the administration of a standard 'green' or 'lower carbon' fund. We anticipate minimal legal and administration costs with the only significant cost being the cost of the external audit. Any costs would certainly be considered business as usual costs for suppliers, who routinely develop and launch new products and tariffs.

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

Broadly speaking we agree with the Ofgem assessment of the 5 options available to measure additionality and specifically reject Centrica's ROC retirement proposal.

One of the strengths of these guidelines is that they leave space for suppliers to innovate around or within some fundamental principles. For that reason our view is that rather than prescribing a specific mechanism, the guidelines should define the underlying universal principles, which in our view should be:

- Security of funds – any funds specifically contributed with the intent of investing in future low carbon products should be ring-fenced entirely for that purpose
- Allocation of funds - any funds should be allocated applying a recognised additionality such as the principles detailed in the Kyoto principle

The 'green fund' proposed at the workshop adheres closely to these principles but this should not necessarily be the only mechanism recommended or supported by Ofgem.

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

In our view a renewable tariff should comprise 100% renewable electricity. For the very small volumes involved with particular SME and domestic tariff offerings, stated percentages would simply cause unnecessary cost and unhelpful confusion. However, for industrial and commercial supplies involving higher volumes - where British Energy traditionally supplies its power, the particular percentages of supply are commonplace it would be a simple matter to have two different contracts for the same supply.

It is worth highlighting at this point a potential issue with 'part-renewable' tariffs and how they are presented to consumers under the guidelines in terms of the renewables kitemark and the banding for low carbon. The fifth question in this consultation asks whether there should be separate guidelines for renewable and low carbon tariffs. The case for separate guidelines appears to be based on the assumption that a renewable kitemarked tariff would also by definition be in the lowest band for low carbon power. Whilst this might be appropriate for a 100% renewable tariff, introducing the possibility of including tariffs with lower stated percentages for renewables will undermine the use of the renewable kite mark alone. To maintain confidence in the scheme, if allowed these 'part-renewables' tariffs must also be obliged to include their rating on the low carbon banding . This further supports our view that carbon intensity and whether a tariff or product is renewable or not, should be seen as two elements within a single set of guidelines.

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

Generally Yes, but we do not support the concept of making suppliers verify all of their tariffs as we believe that this could detrimentally affect supplier uptake.

In our view it is perfectly fair for suppliers to 'slice and dice' their overall supply portfolio to produce a series of low carbon tariffs, (together with some corresponding 'high carbon' offerings). This should

lead to an internal demonstration that the lower carbon intensity products command higher margins which will lead to investment in other, lower carbon technologies.

Our only concern relates to double counting and other disingenuous practices. To avoid this risk it should be required that a supplier gain external third party verification of their processes for managing the flow of either generator declarations or REGOs within their organisations to ensure that mistakes are not made which have the potential to undermine the credibility of the guidelines.

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?

We agree with the method proposed in the consultation document to apportion the electricity to each of the 5 categories according to the percentages set out in the most recent Fuel Mix Disclosure table.

As stated above, our only concern is to avoid double counting and other disingenuous practices by requiring that a supplier gain external third party verification of their processes to ensure that low carbon is not sold twice.

In the longer term we would support developing a standard treatment of all electricity in the form of labelling to make the process more robust and solve the issue of unaccounted electricity being attributed to nuclear or renewable generation.

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

In order to achieve the objectives of the guidelines in reducing carbon emissions and creating market signals, it is important, to accurately reflect the carbon emissions of each type of generation. To align with the growing participation in initiatives in the voluntary market, a lifecycle approach to calculating emissions should ultimately be used. This will allow participating consumers to fully account for all the carbon emissions in the supply chain of the electricity they consume.

We agree that the lower emissions of all types of technologies, including CCS and CHP should be recognised and reflected in lower bands as in the proposed method.

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

CCS should be treated as a low carbon technology as long as the capture and secure storage of the carbon can be demonstrated and verified.

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

We believe that the concept of displaying carbon emissions intensity in a simple and straightforward manner is an ideal mechanism for informing consumers about this critical piece of information. Furthermore we think that the proposed format of coloured bands is the ideal way of displaying this information.

In our view however the guidelines would benefit from amending the proposed position for the bands. As previously stated we believe that these guidelines have the potential to be a critical step on the road towards a polluter pays process for carbon. To accommodate this and to remain relevant it is important that the guidelines be given scope to evolve in accordance with industry (and international) best practice.

Reflecting this, any form of generation that has a 0gCO2/kWh using a point of generation approach could be incorporated in the Very Low band. This would facilitate the move to a Life Cycle Analysis approach which would ensure consistency with other schemes and allow full accounting of carbon emissions from electricity generation. Banding in this way would mean technologies such as wind and

nuclear would not need to switch bands as the guidelines evolve and reduce administration costs as this is achieved.

If this is accepted, then we also believe that the existing criteria for the Very Low band (0-100gCO2/kWh) is too wide. There are a number of technologies that, when viewed using lifecycle analysis, have genuinely low emissions – ie. below 30gCO2/kWh (e.g. wind, nuclear etc.) which will be highly valued by consumers. There are also a number of other technologies that have higher emissions factors in the 30-100gCO2/kWh bracket. These could include marine, photo-voltaic and potentially even the standard fuel mix for British Energy Direct. In our view consumers will want to be able to differentiate between these two types of technologies and so the guidelines should be amended to reflect this.

Who should be responsible for setting the low carbon bands?

The carbon bands could be set periodically in accordance with Ofgem approved principles and taking account of changing circumstances. In order to set the bands as objectively as possible, each supplier should be entitled to propose bands by a specified date supported by appropriate reasoning. The final decision should be made by Ofgem. The relevant principles in setting the bands could include the following:

- To maintain visual simplicity – ie not too many bands.
- Bands set with the intention of discriminating between the most significant forms and technologies of electricity generation to the maximum extent possible subject to the other principles.
- Bands set based on generally available data with the objective of reflecting the contribution to meeting global warming reduction targets.
- Where two technologies have very similar carbon intensities, they should not normally appear in different bands. Similarly, two technologies having significantly divergent carbon intensities should normally appear in different bands.
- The verifier should not express any opinion on the setting of bands except in terms of the practicality of implementing a proposed banding structure.
- The bands will normally be reviewed biennially except where Ofgem agrees that circumstances require a review on an earlier timescale.

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?

Banding should be adjusted over time with the intention of discriminating between different forms of electricity generation with different carbon intensities and technologies should be distributed between bands to the maximum extent possible in accordance with the principles set out in the previous question.

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

Yes.

Any other comment

We have some concerns about the way in which these guidelines accommodate carbon offsetting schemes. One of the guiding principles throughout this process has been to ensure that the information displayed for customers is both unambiguous and verifiable and we do not believe that offsetting adheres to these principles. The main reasons for this are:

- The concept of being able to change the reportable carbon intensity of electricity through the cancellation of certificates representing carbon (whether CERs / ERUs representing carbon abatement or EU ETS allowances to emit carbon) has the potential to adversely effect the development of renewable and low carbon generation in the UK.

- Cancelling CERs for this purpose appears to circumvent the policy underpinning the EU ETS principle of supplementarity, enshrined in the linking directive, whereby Member States are required to ensure that local emissions reductions take place. More specifically we are referring to the legal limitation on the proportion of CERs that can be used for EU ETS compliance.

- Defra's consultation on developing a Code of Practice for the offsetting industry clearly favoured buying and cancelling CERs as the industry "best practice" and proposed to exclude VERs (voluntary emissions reduction certificates) from the code. If consumers believe that this is the best way of reducing their carbon footprint, the purchasing and cancelling of CERs (i.e. credits from non Annex 1/UK projects), could become prevalent over purchasing electricity from low carbon sources or investment in renewable generation via a "climate fund". This has the potential to harm the UK's progress towards its targets for energy from renewable sources.

- Allowing VERs to be included in these guidelines has the potential to include UK based renewable projects, (and other small scale projects) that would otherwise not apply for Kyoto credits due to the administration costs of registering and applying the Additionality Methodologies. A standard, rigorous methodology for demonstration of additionality should be developed, based on the principles of the Kyoto mechanisms (there are several currently in development including the Voluntary Carbon Standard (VCS).

- In addition to this, some carbon offset providers claim "additional" emissions reductions have taken place by their purchasing and "cancelling" of EUA certificates. The justification given is that buying and then cancelling the EUAs reduces the supply available for compliance. Any Phase 1 EUA cancellation is ineffective as there is a surplus of permits. Phase 2 EUA certificate cancellation has the potential to be effective only if the scheme is short at the end of the period, and, more specifically, short by the number of EUAs cancelled. Even then, it would be extremely difficult to prove this was due to cancellation of EUAs and not emissions reductions by constrained organisations that would have occurred anyway. At best, EUA cancellations are likely to be one-off measures that do little to encourage sustainable and enduring reductions in carbon emission.

I trust you will find these comments helpful I would be happy to clarify any aspect of our response with you should you wish.

Yours sincerely

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