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**Cutting the green customer confusion – a response by Centrica plc**

Dear Clair,

I am writing in response to the above Ofgem Consultation dated 21 November 2007.

Whilst Centrica remains fully supportive and committed to the objectives behind implementing a scheme which seeks to cut down customer confusion in relation to green supply offering, we do not believe that the proposals as currently drafted are fit for purpose.

Centrica remains concerned about the key high level principles which will drive the scheme, as currently set out in the consultation paper.

We believe that the proposals, as drafted, will not reduce customer confusion, but rather will add to that confusion.

This response therefore sets out our key concerns in relation to the high level principles, the verification scheme and our response to the 20 consultation paper questions.

Our starting point is that we continue to believe that the two over-riding principles for any scheme are as follows:

1. **Additional Green Benefits** – which must arise as a result of the sale of a green product to a customer, and
2. **Customer Education** - i.e. a ratings scheme which educates customers on the comparative environmental benefits of competing green products.

Additionally, Centrica remains wedded to the following key principles:

1. **The Scheme should include Renewable Energy Tariffs only; and that the Low Carbon Guidelines may be developed and will follow in due course (if customer demand requires it).**

Centrica's view is that having dual track "renewable" and "low carbon" accreditation schemes running side-by-side will simply confuse customers - how will a customer decide how a "renewable" tariff compares to an "A-Rated low carbon" tariff?

Having two schemes will not make it easier for the customer to work his way through the maze of tariffs on offer – it will lead to quite the reverse effect.

Furthermore, we do not believe that customer demand for A-rated low carbon energy will influence the case for building nuclear power plant. The case for and against nuclear including consumer demand for it will be debated separately to this consultation, i.e. within the Nuclear Energy White Paper framework.

There is broad consensus of ERA members on these points.

2. **Evidence of Supply - REGO/LEC backed**

We consider REGOs to be the most sensible form of supplier evidence of supply. Additionally, we have taken independent legal advice that suggests that REGOs and LECs cannot be separated, so would not support an approach where the two are separated.

It is our view, that separating LECs from REGOs turns "double selling" into "triple selling" – and it is generally noted, that no matter how many times suppliers have communicated to Industrial Customers that the energy they are buying is levy-exempt, not green, there is evidence that those customers then market the electricity as green.

We therefore support REGOs as the primary evidence of supply.

3. **The mandation of some form of additionality**

As we stated in our previous response, it is additionality that gives the industry its defence against customer confusion and media criticism (i.e. that suppliers are simply re-badging their existing regulatory obligations).

Unless some form of additionality is included by all suppliers, this fundamental problem persists.

In our previous response, we clearly set out that additionality should be the single most important factor relevant to making claims that a product is 'green'. In that response, we also gave examples as to how additionality can be demonstrated, e.g. ROC retirement, contribution to green funds and carbon offsetting. We reiterate our view that the additionality aspect is the key element which defines the environmental impact and as such, is the key driver which allows the customer to make an informed choice.

We have also indicated our desire to invest further in innovation in this area as technology develops.

4. **Less onerous disclosure rules**

Whilst we support consistency and transparency as fundamental scheme principles, we believe that the disclosure rules must not be overly prescriptive.

It was never envisaged during the original drafting of the EU FMD Directive that the FMD information provided should be dissected in the way in which the Ofgem proposals suggest.

It will be extremely costly for suppliers to implement a complex set of rules surrounding disclosure; and additionally, the routine publication of this information, over and above what we are already obliged to do under the FMD rules, will lead to further customer confusion and customer complaints.

Bearing in mind what the FMD is designed to achieve; we are not minded to believe that a further dissecting of data was ever an intended Government or EU consequence

## 5. **Other key concerns**

We believe that there should be no mandatory or voluntary controls over:

- The price premia which suppliers charge for green offerings, or
- The use of the word 'green'

Centrica is totally opposed to any controls which relate to supply tariffs. In a fully competitive market, it is the quality and the content of the product or proposition and consumer demand for those products which should drive pricing.

Market forces will drive further innovation in this area; not price controls.

We fundamentally disagree with Ofgem's suggestion of price intervention and we want to see this removed from the proposals. Individual suppliers should remain unfettered to develop their own tariffs.

Likewise, Centrica is opposed to any control over the use of the word 'green' in suppliers' offerings. It is not Ofgem's role to determine what is or is not acceptable from a customer perspective; we believe that the ASA and the other advertising authorities are already fulfilling this role and should continue to do so.

The primary objective of this consultation is to review the question of green energy supply offerings because of a growing lack of customer confidence, driven in large part by ongoing negative media coverage of green energy products.

If we review the reasons for this lack of confidence and the nature of the negative media coverage, it is clear that the real issue is not a lack of confidence that the energy is coming from green sources (as all of the green products from the major energy companies are REGO-backed). The real issue is that customers are being sold energy as "green" and being led to believe that this has a positive environmental effect, when actually the green energy they are buying is just coming from existing sources and is a by-product of regulatory compliance. Customers have already paid for that green electricity through their own RO contribution.

This is sometimes referred to by the media as energy companies "selling the green electricity twice", which is a fair criticism.

By setting about creating green guidelines that are entirely focused on source assurance, Ofgem is attempting to solve problem which doesn't exist (source assurance) and making the real problem worse (i.e. no additional environmental benefits will accrue, if industry simply floods the market with 50-60TWh of "A-rated low carbon" energy from nuclear sources).

If these guidelines are implemented as currently drafted, and we don't include additionality as a fundamental principle, we believe that consumers will completely lose confidence in green energy.

It is worth mentioning that a number of leading NGOs' research strongly suggests that this lack of consumer confidence will indeed be the case.

It is also worthy of note, that the Draft EU Renewable Energy Directive is due to be issued shortly, and although only a draft at this stage, may well have a direct impact on the objectives of the scheme. We will need to perform a Regulatory Impact Assessment on the directive in due course.

In summary, we believe that a good deal of further thought and fundamental change to the proposed guidelines is necessary in order to avoid suppliers' products being discredited by the media and a consequent total loss of customer confidence. We believe that there is a window of opportunity to cut through the confusion, which if not taken, could put the growth of green tariffs back many years.

## **Centrica's response to Ofgem's 20 Questions**

### **1. 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 demand for renewable or low carbon forms of generation?**

Provision of the right information will enable customers to understand more clearly what green tariffs consist of, and, critically, what environmental benefits will occur as a result of the purchase of that tariff. The information should provide a basis for understanding comparisons, be simple and objective in nature so that the customer may make an informed judgment.

The primary objective of the green tariff guidelines is not to provide suppliers with "an indication of customer demand for renewable or low carbon forms of generation" – market research should facilitate this requirement, and, suppliers should understand customer purchasing preferences as they design green supply propositions.

The guidelines as currently drafted do not facilitate increased customer demand for additional renewables as they permit the re-badging of mandatory renewable requirements as "renewable tariff" offerings with additionality merely an optional extra. We believe the basis of a renewable tariff should be based on the *additional* environmental benefits over and above the minimum legal requirements.

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

The guidelines and the accreditation scheme should be developed in consideration of the principles of better regulation and therefore be developed as voluntary, and, so far as is possible, be subject to self-regulation.

If the objectives of the guidelines are drafted correctly and are developed robustly by the industry, suppliers will *want* to sign-up to the guidelines and the accreditation scheme as consumers will be placing trust and reliance on the badgemark that proves the validity of the green credentials.

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

As set out in our previous response, we support both domestic and non-domestic propositions being covered by an accreditation scheme.

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

We do not believe that these guidelines are a meaningful CR tool. The guidelines are there simply to inform the customer about their choices when selecting green products.

The renewable guidelines as drafted are merely an assurance mechanism i.e. the renewable tariff is confirmed as being derived of x% renewable sourced energy. The guidelines do not provide an indicator of the additional environmental benefits which will occur over and above the mandatory legislative requirements.

As a result we fail to see how such guidelines could be used to market Corporate Responsibility.

**5. Do you consider that 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 critical requirement is for the renewable tariff guidelines to develop a meaningful minimum industry standard; to qualify, the basis for a renewable tariff should be based on the additional environmental benefits delivered.

The current proposal to have separate guidelines for renewable & low carbon tariffs and for every tariff to be assigned both badgemarks will do nothing short of confusing the customer even further.

We believe that the renewable tariff scheme should be launched first and then after an initial period of review, and if successful and there was customer demand for it, a low-carbon scheme could then be considered.

Therefore, the priority must remain cutting customers' confusion by launching a simple renewable generation scheme first.

We also believe that the scheme should only extend to those tariffs marketed as green; and not to all tariffs offered by suppliers.

**6. Do you think that it is appropriate for suppliers to provide information to customers regarding the contributions that they are already making to Government sponsored environmental programmes?**

We do not believe it necessary for suppliers to provide information to customers as to the costs of their existing mandatory legislative requirements. Not least, because a proportion of this information is highly commercially sensitive.

**7. 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?**

We do consider that the provision of information should be standardised so as to provide consumers with an easy mechanism for comparison between tariffs.

The key information that should be provided is a simple rating system that defines the level of additional environmental benefits – akin to the electrical energy efficiency rating visual.

We provided a potential option in our response to the first consultation.

We remain committed to the ERA Working Group in developing what the standard may look like.

**8. 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 strongly do not believe that this level of detail is necessary.

Additionally, the FMD obligations were not designed to be used in this way. They state suppliers' corporate undertakings and therefore do not help the customer to make an informed decision at the single product or tariff level (which should be the whole aim of these guidelines).

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

We have taken independent legal advice from (i) Her Majesty's Revenue and Customs and (ii) our external Legal Advisers, who advise that LECs cannot be separated from energy; therefore for a low carbon tariff both a LEC and a REGO must be (1) available, and (2) removed from the market.

This will remove any potential double counting. In addition the concept of "where available" is unacceptable – a low carbon tariff should only be marketed as such where both aforementioned certificates are removed from the market.

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

We do not agree with a centralised green fund.

Centrica remains committed (i) to delivering the most cost effective approach, (ii) with the most demonstrable environmental benefits, (iii) whilst maximising customers' value for money.

Individual suppliers should be left to develop their own green funds in the most cost effective ways. It should be left to supplier discretion as to how they invest in the management of a green fund; if two or more suppliers want to pool a green fund they should be allowed to do so; if suppliers want to manage & fund their own fund they should also be allowed to do so.

The objectives, management and governance of a green fund should be agreed at the outset i.e. a green fund should be marketed where there is clear investment in additional and future renewables.

We were not aware, at any industry meeting or workshop, that there has been support for the development of a mandatory centralised green fund.

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

We believe that additionality must form the minimum requirement for any green tariff.

ROC retirement is an allowable mechanism of the RO, designed to incentivise further renewable investment; a point we have raised many times directly with Ofgem, through ERA and within the Working Groups.

It is a point which has been widely accepted.

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

**13. 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?**

**14. 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?**

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

- 16. Should CCS be treated as low carbon technology or should the carbon sequestered be included in the calculation of emission intensity?**
- 17. Are the illustrative bands appropriate? If not, how should they be amended?**
- 18. Who should be responsible for setting the low carbon bands?**
- 19. 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?**

**A general response to questions 12-19:**

As set out in our introduction, the scheme should include renewable energy tariffs only and the Low Carbon Guidelines should be developed and follow at a later stage as dictated by customer demand. We believe that a Carbon Intensity rating system, where nuclear is ranked alongside renewables in Band A, with a range of technologies in subsequent bands including CCS, CHP, CCGT and OCGT will prove deeply confusing for consumers. This therefore undermines Ofgem's objectives.

Any banding mechanism should be based on the carbon lifecycle impact, in line with existing market practice. This is particularly important in the treatment of Biomass. Ofgem's intention to only consider carbon intensity at the point of biomass combustion is perplexing for industry players and would be incomprehensible for consumers. Rating a renewable technology as the worst carbon contributor is not only confusing but undermines consumer confidence in renewable technologies. Furthermore, this approach is inconsistent with treatment for the Fuel Mix Disclosure.

The questions relating to specific technologies indicate that there is far more work to be completed on the assessment of the carbon benefits associated with CHP and CCS. Also, it is far from clear who would have the required expertise and impartiality to set and review carbon intensity bands across this wide range of technologies.

We believe that the development of renewable guidelines using REGOs must be considered in the context of the EU's Draft Directive on Renewables as there is every potential for a set of Green Supply Guidelines to be rendered unworkable by the proposals for trading and cancellation of Guarantees of Origin.

These proposals need significant additional consideration and should not be rushed through.

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

We agree with Ofgem's proposals, however, we would suggest a simpler framework i.e. that each company appoints an auditor (this could be existing company's auditor) to confirm compliance with the verification scheme.

## **Centrica's view on the consultation process and summary**

Centrica remains supportive of the desire to remove customer confusion in relation to green supply offerings.

However, as currently drafted, we have serious concerns with Ofgem's thinking; concerns which we do not feel have been properly addressed by way of this consultation exercise.

We believe that unless Ofgem listens to the arguments put forward by us and the supplier community more widely, the guidelines will have little effect in reducing customer confusion.

We also remain disappointed that proven models from other jurisdictions have not featured more prominently in the debate; e.g. The Australian GreenPower model is a tried and tested framework that has shown real improvements in customer uptake for green tariffs that deliver additional environmental benefits on top of the mandatory legislative requirements.

We believe that the consultation is being rushed through and that the timelines for implementation are not realistic; however, we remain committed to working with the ERA Working Group and the NGOs to deliver a longer term, fit for purpose and ultimately workable solution.

We believe that the design and implementation of the scheme and any verification process must be decided by suppliers via the ERA Working Group as above, and not mandated by Ofgem.

Finally, we do not believe that industry will be in a position to implement these guidelines by May of this year, given the number of activities which will be required to implement this scheme. We would estimate that a more realistic timescale would be at (at least) Q3 of this year.

We would welcome an urgent opportunity to meet with Ofgem to discuss the points raised above in more detail and will be in contact shortly.

Yours sincerely,

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**On behalf of Centrica plc**