

## **Ecotricity's Response to Ofgem's Document "Cutting the Green Customer Confusion", 21 November 2007**

### **Overview**

Ecotricity supports Ofgem's initiative to introduce new Green Guidelines surrounding electricity supply and agrees with Ofgem that the new Green Guidelines should be voluntary in nature. Ecotricity agrees also that they should apply to both domestic and business green tariffs and is comfortable with the extension of the guidelines to cover low carbon tariffs, particularly in the case of business customers.

Ecotricity is very pleased to see that Ofgem has taken on board suppliers' concerns regarding the potential of an ill-conceived accreditation scheme to homogenise green supply products. Rather than the overly prescriptive and judgemental frameworks that have been mooted in the past, Ecotricity is supportive of the move towards a more open and less dogmatic code of practice.

Ecotricity wishes to put forward specific views covering the following areas:

### **Transparency, Verification and Additionality**

Ecotricity continues to support the three pillars of Ofgem's green guidelines, namely Transparency, Verification and Additionality. Ofgem's desire for greater transparency of proposition is to be welcomed and the use of REGOs is consistent with the verification standards required for FMD. Whilst Ecotricity fully supports additional initiatives from suppliers, it is fair to say that over the past few years, it has been impossible for suppliers to reach an accord as to exactly what form additionality should take. Ecotricity's position on these three core elements is as follows:

**Transparency** – Ecotricity is encouraged by Ofgem's desire to secure greater transparency of proposition from all suppliers of green tariffs. Only by fully understanding differences in competing propositions is a consumer able to make a properly informed decision. Ecotricity welcomes moves that will permit suppliers to be judged on the full breadth of their proposition.

Neither the market nor consumers would be well served however, if suppliers' propositions were unfairly ranked using only narrow and simplistic criteria which did not allow enough salient information to be conveyed. It is essential that any green tariff accreditation process should provide suppliers with the facility to accurately communicate their green tariff propositions.

Ecotricity would also very strongly recommend that, in addition to their green tariff details, suppliers are required to disclose the headline details regarding their company operations, including their non green business. It would be disingenuous of suppliers to try to win customers for a climate friendly tariff if they simultaneously failed to divulge the impact of their ownership of a fleet of fossil power stations, for example.

**Verification** – Ecotricity fully supports Ofgem's proposed use of REGOs as the sole measure for 'greenness' of electricity under the new Guidelines, thus fully aligning them with existing EU FMD regulations.

Under the Green Guidelines it would be expected that any independent accreditation body would be given access to information that would allow them to fully verify the features and content for any given tariff. However, they would not be expected to verify any *claims* made by suppliers as to the actual benefit derived from signing up to the tariff. If a supplier was deemed to be overstating the positive effects of a tariff, that would be a matter for the ASA, not the independent accreditor.

**Additionality** – Ecotricity is firmly of the opinion that activities beyond existing supplier obligations (the RO for example) are crucial to the ongoing development of the green electricity market and as a means by which green electricity suppliers may differentiate themselves and their products from one another.

In practice though, this has caused problems since suppliers and other stakeholders have been unable to agree exactly what activity should be classed as additional and what should not. Moreover, even when there is a deal of agreement on what activities construe additionality, agreement has still failed to be reached on the *level* of additionality an activity represents relative to competing suppliers' additional activities.

Thus, Ecotricity supports Ofgem's proposal. Innovative additional activity beyond existing obligations should be expected from all suppliers of green tariffs. This activity should be clearly and transparently illustrated by the supplier. As such, the consumer can make their own mind up about which supplier's activities they would wish to support.

However, we would very strongly recommend that all suppliers were obliged to publish their own RO compliance figure through ROC redemption - to put their green supply products in context. Claiming additionality for a green product is one thing, but if a supplier has already failed to achieve their RO target through ROC redemption, then no manner of additional initiatives will make up the green shortfall.

It would be completely unacceptable if an independent third party contracted to administer the Green Guidelines and the associated accreditation process was to rank suppliers' additional activities upon the basis of their own criteria of importance.

### **Independent Accreditation and Quality Mark**

Ecotricity concurs with Ofgem that any subsequent accreditation resulting from the Green Guidelines should be 'owned' by the suppliers themselves and be operated by a totally independent third party. Ecotricity would wish to see in place an organisation that does not carry any historical green tariff 'baggage' that could colour its judgement. Rather, Ecotricity believes that an organisation with an understanding of markets, renewable energy and audit & accreditation would be most appropriate.

Ecotricity would wish to see a beauty parade of potential organisations. These should include established audit houses (eg BSI, Lloyds RQA); industry organisations, such as Gemserv; and possibly environmental consultancies specialising in renewable energy? Ecotricity feels that organisations such as the EST and the Carbon Trust are not well-placed to act as the accreditation agency, both having too much in the way of a policy and opinion forming role which serves to remove their neutrality and impartiality.

The 'quality mark' is an aspect that needs to be considered very carefully. The recent history of green tariffs in the UK is littered with biased reports, accreditations with little industry backing and league tables compiled using spurious data by organisations with distinctly prejudiced motives. As such, it is reasonable to presume that interested consumers are quite probably confused regarding current green tariff claims and unsure which agency's opinion to trust, if at all?

The independent accreditor role should be to validate the claimed content made by suppliers about their green electricity tariffs (to ensure the buying public that it 'does what it says on the tin') and to present each tariff's key features in an understandable and comparable format. In no way should the independent accreditor offer a judgement of a green electricity tariff.

Ecotricity would potentially support an initiative that provides customers with clearer and easier to understand information, particularly if it is in an already recognised format. The CO2 intensity banding graphic, modelled on the existing appliance information tag, is an interesting use of an existing format but does suffer from the potential to over-simplify the relative merits of each tariff. The colour banding would in no way reflect additionality (or indeed even full ROC compliance with the RO) and could well become the dominant label, overshadowing all other elements. It will also introduce a mode of ranking, which Ecotricity believes should be avoided.

### **The Green Guidelines Framework**

Ecotricity strongly favours 'future proofing' the Green Guidelines through the establishment of a robust and auditable framework upon which tariffs can be easily scrutinised and compared by consumers. This framework would not be in place to pick winners or to voice an opinion on the perceived merits of the tariffs therein. Its functions would be to:

- Verify and validate the claimed percentage renewable component (per renewable source) of the tariff (where applicable)
- Verify and validate the claimed CO2 emissions of the tariff
- Verify that any additional activity the supplier claimed was being undertaken on behalf of the tariff's customers *was* genuinely being undertaken
- To ensure that information presented to the buying public is in an agreed and standardised (easy to understand) format common with all other suppliers participating in the Green Guidelines – probably in the form of quality marks, standardised format information boxes, or similar
- Establish a structure whereby future tariffs (possibly non-green, eg social, etc) can be validated and verified using the same principles

The Green Guidelines framework should *not*:

- Express an opinion on which tariff is deemed to be better
- Rank tariffs in a 'league table'
- Attempt to compare the features of one tariff with the (quite possibly different) features of another (not to try to 'compare apples with oranges')
- Attempt to validate the claimed benefits of suppliers' additional activities

Examples:

1. A supplier's tariff offers 100% renewable electricity from large hydro power and offers to plant a tree for each customer.

The Green Guidelines should verify that a customer's electricity usage is matched by the stated percentage of electricity generated from large hydro power, by use of an appropriate information box or symbol. The CO<sub>2</sub> emissions associated with the tariff should be stated in the appropriate information box. The Green Guidelines should confirm that a tree is planted for each customer who signs up (additional to any existing programme of tree planting – no double counting) and which agency undertakes this on behalf of the customer. However, the Green Guidelines should not attempt to qualify what benefit, if any, planting a tree will actually achieve.

2. A supplier's tariff offers 50% renewable electricity (of this half is sourced from wind power, half from dedicated biomass combustion) and, on behalf of each customer, pays £10 per year into a fund which donates money to micro-scale community based renewables projects.

The Green Guidelines should verify that a customer's electricity usage is matched by the stated percentage of electricity generated from wind power and dedicated biomass, by use of the appropriate information boxes or symbols. The CO<sub>2</sub> emissions associated with the tariff should be stated in the appropriate information boxes. The Green Guidelines should confirm that £10 is donated annually to a community renewable fund on behalf of each customer signed to the tariff and which agency manages the fund. However, the Green Guidelines should not attempt to qualify what benefit, if any, the £10 donation will achieve.

3. A supplier's tariff offers standard 'grid mix' electricity but claims to offset the full CO<sub>2</sub> emissions for each customer's annual usage.

The Green Guidelines should verify the CO<sub>2</sub> emissions associated with the tariff (ie standard grid mix as per Defra figures). They should also verify that an agency, which has achieved the 'gold' offsetting standard (as per Defra definition), has been contracted to undertake activities which claim to offset the customer's electricity-related CO<sub>2</sub> emissions.

The Green Guidelines should not attempt to validate the suppliers claim as to the effectiveness of the offsetting activity nor should the verified CO<sub>2</sub> emissions figure for the tariff be reduced by the claimed offset activity. It should categorically *not* be acceptable for any tariff to achieve zero CO<sub>2</sub> through offsetting. An offset is not a reduction.

### **LEC Retirement**

Ecotricity does not believe that suppliers of domestic green tariffs should be required to retire the LECs associated with the green electricity that is being generated. Incorporating LECs (or indeed ROCs) will add nothing but confusion for the customer since if REGOs are rightly to be regarded as the exclusive EU-wide measurement of a supplier's greenness, then no 'double counting' using LECs or ROCs can possibly be undertaken.

A consultee with a known interest in seeing LECs retired is HM Revenue & Customs. Their motive is purely financial since LECs retired on behalf of domestic customers will equate to greater CCL charges levied on business customers. No domestic customer will benefit as a

result. It should also be remembered that CCL is applied to all primary fuel sources for business, not just electricity.

Further reasons for not requiring the retirement of LECs from domestic tariffs are thus:

- Suppliers using wind generated power will not be penalised. If it becomes a requirement to retire LECs (where applicable) for domestic green tariff customers, then those suppliers sourcing from wind power (and other sources that are awarded LECs) will suffer a distinct commercial disadvantage over those suppliers who source from large hydro power (and other sources that are not awarded LECs). For a domestic customer using 4-5 MWh of electricity per annum, the value of LECs retired would be in the region of £18 - £22.
- If retiring LECs were a requirement, it seems very unlikely that suppliers would simply absorb this extra cost (particularly when their hydro power sourcing competitors are not similarly disadvantaged). Most likely, they would pass the additional cost through to the customer. This would result in the customer paying a premium in the region of £20+ per year for absolutely no benefit whatsoever, environmental or otherwise.
- Suppliers will not wish to retire LECs unnecessarily. If LEC retirement (where applicable) was a condition for domestic green tariffs, then the sourcing of wind generated (and other LEC accredited) electricity for the domestic market could all but cease. LEC accredited green power would be sold into the business market and non-LEC accredited green power would be sold to the domestic market. Supplier product innovation and domestic customer choice would be greatly reduced as a result.
- LEC retirement has been tried before by some suppliers and the overwhelming majority of domestic customers have not understood LECs or what they are for. Adhering to the new Green Guidelines will require suppliers to be fully transparent about retiring the LECs and the reasons behind this additional cost. Indeed, in such a case, it would be most appropriate for the regulator to publish a statement to the customer containing a compelling justification as to why LECs had to be retired and why their electricity was costing more as a result.

LEC retirement would act only to highlight HMRC's needless involvement in domestic green tariffs; the additional costs to the customer that HMRC's involvement incurs; and the complete absence of any benefits that HMRC's involvement brings.

### **Low Carbon Tariffs**

Whilst Ecotricity supports the inclusion of low carbon tariffs, particularly for the business customer, it has deep reservations regarding nuclear generated electricity. Clearly, nuclear forms a significant proportion of standard grid mix and its contribution towards UK electricity supply cannot be ignored. However, to promote nuclear energy as being in some way environmentally beneficial runs contrary to what we believe the majority of rational buyers would conclude. Whilst the actual nuclear generation process does not produce carbon dioxide emissions, uranium extraction and the fuel refinement process are nevertheless relatively carbon intensive – and this carbon impact is not represented in nuclear's FMD figure.

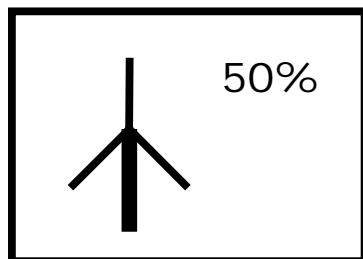
Likewise, the radioactive waste legacy means that despite any CO2 claims, nuclear could never be seen as being an ecologically positive choice. Ecotricity strongly recommends that nuclear-derived electricity is omitted from the Green Guidelines with regard to low carbon tariffs.

Ecotricity is comfortable with the inclusion of accredited CHP and other LEC accredited technologies, being defined as lower carbon sources of electricity.

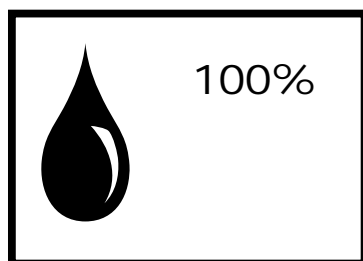
**Appendix:** Example Green Guidelines Information Label Formats

Clearly these examples would need refinement but we believe they convey the key tariff information clearly. A tariff would use as many of the labels as was necessary.

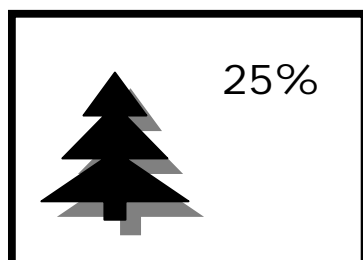
Wind



Hydro



Biomass



Wave



## Response to the consultation questions in Appendix 2

Please note that although a response is given for each question posed, many of the topics have been covered in much greater depth in the previous paragraphs.

1. Greater available information about tariffs should result in an improvement of customers' understanding of the marketplace and the products available. Though this in itself is no guarantee of a full understanding of the relative merits of competing products.

Similarly, the strength of both the suppliers' product marketing and the suppliers' brands in influencing customers purchasing decisions, should not be overlooked. It would be folly to presume that a new accreditation scheme that few consumers are initially aware of will take precedence over established brands and marketing campaigns.

Overall, a quality accreditation is likely to help further clarify customers' demand for low carbon and green tariffs, though that is certainly not to say that a perfect picture of the marketplace and its potential will be attained.

2. Ecotricity believes that voluntary guidelines are the only feasible option. If the Green Guidelines promote honest good practice and the accreditation scheme specifies that a supplier must only be truthful about what they are offering the consumer, then there is no material reason why a supplier should not participate willingly. Not to do so would only serve to arouse suspicion about that supplier's products and practices.

Only if the Green Guidelines are prescriptive regarding what a green tariff should actually constitute should there be dissent amongst suppliers. Suppliers will never agree upon exactly what represents a green tariff and if they did it would only create a marketplace of homogenous products with no differentiation. In such an instance it is likely that few, if any, suppliers would participate in such a scheme.

3. As above, so long as the accreditation functions as a quality mark for a tariff and not as a prescriptive list of subjective minimum requirements, then Ecotricity sees no reason why it should not also embrace non-domestic tariffs.
4. Ecotricity does not think that business customers should use the Green Guidelines or the accreditation scheme to replace aspects of their CSR programme. However, when making statements regarding their energy purchasing, the accreditation scheme should add credibility to their claimed position.
5. Ecotricity believes that it is generally unnecessary for low carbon and green products to have different guidelines. If the Green Guidelines and accreditation scheme concern themselves principally with promoting and auditing good practice and honest marketing, the make-up of the customer base being marketed to should be insignificant.
6. Ecotricity believes that suppliers should not be required to divulge costs of the RO, EEC, etc. These are costs levied at suppliers, not customers. It is up to the supplier to choose how to pass these costs through (if at all) and different suppliers may well use different methods, which may not be directly comparable.



In essence, these costs are no different from other business costs that suppliers must bare, such as TuoS and DuoS. These are both passed through to customers, though it would be highly unusual for either to be detailed on a customer's bill or in marketing literature.

7. Ecotricity strongly opposes any move whereby the Green Guidelines or accreditation scheme place a relative environmental value on tariffs' attributes. The accreditation scheme must be in place only to confirm that what a supplier states is included in a tariff is true and correct. The accreditation scheme should not express a view on a supplier's claims of any environmental benefits of a tariff and it should not judge one tariff relative to another, or indeed attempt to rank them.
8. It is Ecotricity's firm opinion that key elements of the existing FMD directive should be employed in the new guidelines. Principally, REGOs should be used as the sole metric for green supply. Green certificates are confusing enough for customers as it is, so the industry must standardise on a common framework. Given that FMD is EU-wide and is already publicised to consumers, it would be nonsensical to use any means other than REGOs to define the percentage of green electricity allocated to a tariff.

Further to validation by REGO, renewable tariffs should also bear a symbol (or symbols) defining the percentage obtained from specific renewable sources.

9. LECs are applicable only to business customers (CCL applies to *all* primary energy sources, not just electricity) and have no place in domestic green electricity tariffs, for reasons outlined at length previously in this document.
10. Ecotricity does not support a collective green fund and offers no view as to its likely operating cost.
11. Ecotricity firmly believes that tariff additionality defies both definition and measurement in a way that would be acceptable to all suppliers. As such, we advocate an accreditation whereby suppliers, should they wish to, can incorporate into their tariffs products or initiatives that they deem additional to mandatory requirements. The accreditation should reassure the buying public that the additional components are indeed included within the tariff. However, the accreditation should not attempt to judge or validate any claims made by the suppliers as to the relevance or significance of the additional features.
12. Ecotricity believes that so long as a percentage of renewable electricity is clearly stated (and from which sources) then it is up to the customer to make up their mind. Accreditation should simply guarantee that the stated percentage and source as claimed by the supplier is true.
13. Ecotricity does not support a 'rating' scheme of any kind – or a scheme that could inadvertently be used to rate competing products. We would advocate a labelling system whereby the relevant information was clearly made available to the customer and they could then make up their own mind by comparing products against the criteria that were important to them.

For example, a nuclear only product would achieve a zero CO2 rating and would rank higher than a product comprising 80% onshore wind and 20% gas. For Green Guidelines to favour non-renewable (and arguably environmentally hazardous) generation types would be wholly unacceptable and misleading to the buying public.

14. Ecotricity would suggest that for non REGO/generator declaration electricity, established DEFRA values should be used to calculate emission intensity. The values must be adopted by all suppliers – for example, if two suppliers both offered 50% wind/50% coal products, their emission intensity should be the same. One supplier cannot claim lower CO2 values for coal-fired electricity than another.
15. Ecotricity is comfortable with emission intensities being calculated from the point of generation, so long as the figures used are consistent and verified by a respected agency (eg Defra). Real reductions in CO2 emissions for a given energy output are acceptable, so we would be comfortable with a verified figure for CHP output. CCS however is an unproven technology which does not result in CO2 reductions – it merely stores the CO2. As such, this technology should not be included and should not be represented as lower CO2 figures for given tariffs.
16. CCS is presently only a theoretical technology, unproven on a commercial scale. As such, Ecotricity believes CCS technology should not be seen as a substitute for not emitting the CO2 in the first place. Fossil fuel derived CO2 emissions stored under a CCS scheme should still be included in the emission intensity calculation.
17. As per our answer to Q.13, Ecotricity does not support a rating system. We are comfortable with CO2 intensities being displayed, along with other relevant information. By default, a banding system could act to rate products against only narrow (or single) criteria, ignoring many other relevant factors.
18. Presently Ecotricity does not have a final view on this question.
19. Presently Ecotricity does not have a final view on this question.
20. Ecotricity generally supports Ofgem's overall proposals for new guidelines and an accreditation scheme. Clearly, the new guidelines must not only act in the best interest of the customer but must be reflective of both the market and what is realistic for suppliers to achieve. They must also be non-prescriptive insofar as suppliers' product propositions are concerned, but readily auditable.