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RE: 'Cutting the green customer confusion – next steps'

I. Summary

- The evolving policy context has now made the effective resolution of this issue extremely urgent.
- All consumers have a right to accurate information regarding the carbon and renewable content of their electricity supply.
- Ofgem's priority must be to set up a fail-safe system to ensure there is no double-counting, and thus double-selling, of renewable electricity.
- The existing Fuel Mix Disclosure regulations should form the basis of a single set of mandatory rules for all suppliers.
- Renewable electricity must be backed by REGOs and renewable LECs as evidence of supply.
- Full and accurate disclosure will allow for ranking in terms of renewable electricity and carbon content.
- It will also allow for renewable and low carbon electricity to be transparently valued and thus be subject to the effective forces of supply and demand.

- Additional environmental benefits must be carefully assessed by an independent certification body, and claims strictly regulated and enforced.
- We consider the proposed timescale to be unrealistic. We would hope to see new rules in place by September 2008.

2. Introduction

- 2.1 energywatch's strategic goal is to protect and promote the interests of present and future energy consumers. Our mission is to be an independent consumer champion, dynamic in developing confident and assertive consumers and committed to improving the services provided to all gas and electricity consumers. Because our remit is to protect the interests of all consumers, including future consumers, energywatch is particularly keen to ensure that sustainable solutions are identified to combat environmental problems, chiefly global warming.
- 2.2 We welcome this opportunity to respond to Ofgem's second consultation entitled 'Cutting the green customer confusion – next steps'. We support Ofgem's aim to reduce confusion for consumers who wish to purchase 'low carbon', 'renewable' and 'green' electricity tariffs. We have been pleased to play a full part in the stakeholder events that have taken place as part of the consultation process, and we will continue to support Ofgem as it finalises its policy over the coming months.

3. Policy context

- 3.1 The evolving policy context has made the effective resolution of this issue extremely urgent. It is essential that Ofgem now develops a rigorous set of rules that ensures transparent information for consumers.
- 3.2 Firstly, the UK will have a demanding target for renewable energy to meet by 2020. This is likely to be around 15 per cent which will equate to over 30 per cent of renewable electricity. This represents a large increase from the

current level of around 5 per cent. Consumers, both domestic and business, have an important role to play in driving this investment in renewable energy so long as they have full and transparent information.

- 3.3 Secondly, many organisations are seeking certification under an environmental management system, such as EMAS or ISO 14001. Some are part of a carbon emissions reduction plan while others will be part of the Carbon Reduction Commitment. This includes local authorities, Government departments and many private companies. These bodies must have the assurance that they are purchasing bona fide renewable and low carbon electricity so that they can accurately calculate their carbon footprint and receive their accreditation. This goes far beyond the requirements of corporate social responsibility and business marketing agendas and will soon incorporate all companies. It may even form the basis for taxation in the future.
- 3.4 Thirdly, there has been a huge growth in consumer consciousness about household carbon emissions. As a result consumers are becoming more and more interested in the environmental impact of their daily lives. This also applies to companies consumers – especially those with a direct consumer interface, such as large retailers. These businesses make claims regarding their own carbon emissions as part of their marketing strategies. The result is that there is a growing demand from consumers as well as from shareholders for goods and services supplied by companies that have a positive environmental profile. This increases the potential for false and misleading claims which must be very carefully guarded against.

4. A single set of mandatory rules for all suppliers

- 4.1 In energywatch's view it is absolutely essential that consumers have accurate and transparent information regarding the carbon and renewable content of their electricity supply. This will allow for the carbon content of electricity to be transparently valued and thus subject to the effective forces of supply and

demand. We have thought hard about how best to resolve the issues to do with double-counting and additionality inherent in the current arrangements. As a result we have refined and built on the position we set out in our response to the previous consultation.

- 4.2 In our view Ofgem's priority must be to set up a fail-safe mechanism that ensures there is no double-counting, and thus double-selling as an essential pre-requisite. We have reached the view that a single set of mandatory rules, rather than voluntary guidelines, is required to achieve this across all suppliers. Once this regulatory framework is in place, we consider that criteria must be developed for evaluating any additional environmental benefits being offered to which suppliers must adhere. Claims must be regulated and any premium charges clearly explained.

Increased transparency, accuracy and consistency

- 4.3 energywatch supports Ofgem's intention to increase transparency in the provision of information on green tariffs. We consider that transparency, accuracy and consistency are essential to building confidence in a product. We are proposing a much simpler scheme than that proposed in the consultation document. Our proposal is for a single set of mandatory rules for all suppliers therefore has this as its central aim.
- 4.4 We do not support the elaboration of two separate sets of guidelines – one for renewables and one for low carbon energy. Many consumers perceive terms such as 'green' and 'low carbon' to mean renewable. In a face-to-face omnibus survey undertaken for energywatch by Mori, 75% of respondents understood 'low carbon' electricity generation to mean electricity generated from renewables¹.

¹ energywatch included four questions within the Public Affairs Monitor, an Ipsos MORI monthly face-to-face omnibus. The survey was conducted between 20th and 25th of September, 2007 and 2015 respondents participated in the survey.

- 4.5 energywatch's proposal is based on the need for the mandatory disclosure of accurate and transparent information that will allow both domestic and non-domestic consumers to make reliable choices in terms of both carbon emissions reductions and renewable electricity generation. In our view the existing Fuel Mix Disclosure (FMD) requirements, with some adjustment, together with strict and even-handed enforcement, are sufficient to deliver the required outcome². In this way our proposal is consistent with better regulation principles which require regulation to be targeted and effective. The scheme should be owned jointly by Ofgem, BERR and Defra to ensure consistency across all relevant regulations.
- 4.6 Each supplier should be legally bound to declare the fuel mix of each of its individual tariffs as well as its total supply for the preceeding year³. This would apply to all tariffs, not only those marked as renewable or low carbon. Where a non-domestic consumer is not on a set tariff but has negotiated its own terms, the supplier must still be in a position to declare the fuel mix of the electricity being supplied. In any promotional materials or advertising, suppliers should be obliged to set the fuel mix of individual tariffs in the context of the fuel mix of its overall supply.
- 4.7 From the FMD figures suppliers will also be able to calculate the carbon intensity of their overall supply as well as for each of their individual tariffs. Many already do this each year. (Suppliers use evidence from long-term supply contracts, particularly with nuclear power stations, as well as renewable certificates as evidence for their fuel mix disclosure. Only for that element of their supply that is centrally traded do they use average fuel mix figures.) These figures will need to be compared with the carbon intensity of the standard fuel mix (the details of which are available on BERR's website and in DUKES) in order for emissions reductions to be calculated correctly.

² The Supply Licence will also require some parallel modification.

³ For that part of their disclosure that relies on the average national fuel mix suppliers should ensure that this does not include any element of electricity generated from renewable or nuclear sources.

Evidence of supply

- 4.8 The total renewable content of each tariff must be backed by Renewable Electricity Guarantees of Origin (REGOs) and their European equivalent. (This is already a requirement of the FMD regulations). It would be possible for the renewable technology from which the electricity was generated to be declared as well. The renewable content must also be backed by renewable LECs (except where there is a difference in definition in which case REGOs only would be permitted).
- 4.9 It is therefore essential that every renewable LEC be accompanied by a REGO. This must be a strict requirement on suppliers and rigorously enforced to eliminate any double-selling of green electricity. CHP LECs must not be used to back a claim for renewable electricity. For domestic consumers, all LECs must be retired, while for non-domestic consumers all LECs must be transferred to the consumer for tax exemption purposes. All REGOs must be retired.
- 4.10 Our proposal does not require ROCs to be retired as evidence of supply even though they are important. This is because, if all suppliers are legally obliged to back their green supply with REGOs and renewable LECs, then, even if a supplier sells surplus ROCs on, the new owner will not be able to use them as evidence of renewable electricity unless it also has REGOs and LECs to back it. ROCs will therefore continue to be used for RO compliance purposes and suppliers will not otherwise be able to use them as evidence of renewable supply. Suppliers may still decide to retire ROCs in respect of their supply and they should be free to do this as part of their claim of additional environmental benefits (see below).

Additional information

- 4.11 energywatch agrees that suppliers should be obliged to inform consumers in a standard format that they are not necessarily increasing the overall amount of renewable electricity capacity by signing up to a renewable tariff, and that they are already contributing around £10 a year to renewable electricity capacity through their electricity bills. If the fuel mix consumers are receiving does not contain any renewable electricity, they should also be informed of this.
- 4.12 We think it would be desirable for suppliers to explain to consumers why the costs of the EU Emissions Trading Scheme are being passed through to them, even if they are buying renewable electricity. This is complex information which needs to be conveyed in a standard format including agreed annual sums for the contribution consumers are making.
- 4.13 We believe that requiring suppliers to provide information about the Carbon Emissions Reduction Target (CERT) in the context of low carbon and renewable electricity supply⁴ may be confusing for consumers. This is complex information to convey since on average consumers receive benefits as well as costs from it. The programme only covers domestic consumers and many households who have benefited are not aware that they have. (For example households who purchase new appliances are often not aware that these are subsidised by the CERT programme.) We are therefore concerned that Ofgem's proposals would not lead to a balanced picture being given to consumers and we do not consider this information to be relevant in this context.
- 4.14 However energywatch recognises that there are many large companies, such as retailers for example, who are keen to buy all their electricity from renewable sources. Given the small amount of renewable capacity currently

⁴ energywatch is not opposed to providing consumers with information about the costs and benefits of CERT in the appropriate context. We simply do not see the link with renewable and low carbon electricity supply.

available, and the buying power of these large companies, this could mean that domestic consumers do not have access to electricity from renewable sources, or that its cost is very high. Instead they will be offered tariffs that have a variety of other 'green' characteristics. It is essential that these offerings are strictly regulated if domestic consumers are not to be misled by claims.

Reconciliation

- 4.15 There must be an obligation on suppliers in the Supply Licence to ensure that the amount of renewable and other low carbon electricity they sell to consumers (both domestic and non-domestic) does not exceed the total they have purchased in the preceeding year.
- 4.16 As evidence of this, at the end of the year in question, suppliers should be required to reconcile the quantity and source of electricity they have supplied to consumers during the year with the amount they have purchased. They must show that they hold the documentation required to back the renewable and other low carbon elements of it. Where there is a discrepancy the supplier must compensate for it the following year. Where the discrepancy is beyond a reasonable margin, the supplier would be liable to enforcement action and should inform customers accordingly.

5. Additional environmental benefits

- 5.1 Given the competitive nature of the energy retail market and the shortage of renewable electricity supply, suppliers are likely to seek to offer consumers additional 'green' benefits with the electricity supply. It is essential that claims relating to any other aspects of a tariff can be justified and do not become the new focus of misleading information and claims.
- 5.2 The independent body must develop criteria for measuring and valuing the additional environmental benefit being offered, paying particular regard to

double counting of benefits. (These additional environmental benefits should not be taken into account in assessing and ranking the carbon and renewable content of an electricity supply tariff.)

- 5.3 This is particularly important in relation to investing in future renewable capacity. It would also be for the certification body to devise a system to demonstrate the value of additional environmental benefits visually.

Carbon offset

- 5.4 Suppliers may wish to offer consumers the chance to offset the carbon emissions arising from their energy use. Suppliers who offer carbon offsets should be obliged to comply with Defra's Code of Practice on carbon offsets. They should also be obliged to inform consumers that they can offset the carbon emissions through other carbon offset schemes, should they so wish. Suppliers should also make clear what the equivalent cost per tonne of carbon being offset is and account for any administration costs. The relevant certificates, whether they are CERs or EUAs, should be withdrawn out of the system.

Centralised 'green fund'

- 5.5 energywatch does not favour the creation of a central green fund administered by Ofgem. In our view this would not be an effective use of Ofgem's time. It would also be bureaucratic and would reduce innovation and competition.

Decentralised 'green funds'

- 5.6 We consider that suppliers should be free to set up their own, decentralised 'green funds'. (More than one supplier could even decide to set up a decentralised 'green fund' jointly.)

- 5.7 A set of criteria needs to be developed to ensure that green funds do not become the new focus for false and misleading claims in the future. Particular attention needs to be paid to the value of using consumers' funds for investment in new renewable generation. These benefits must not be double-counted, and an assessment must be made of the extent to which the investment would have been expected to have taken place in any case.
- 5.8 Any fund must be independently administered and be subject to independent audit. Any assessment of additional environmental benefits must be fully justified and approved by the independent certification body (see below).

ROC retirement

- 5.9 Suppliers should continue to be permitted to retire ROCs in relation to all or part of their supply. Here again, a set of criteria will need to be developed. energywatch accepts Centrica's view that ROC retirement is likely on the face of it to lead to increased investment in renewable capacity. We consider that the supply side constraints referred to by Ofgem, such as planning problems and delays caused by the administration of the grid, are temporary in nature and being solved. They are not sufficient to undermine the causal relationship between the value of ROCs and the amount of investment in new renewable capacity. This is the rationale for the Renewables Obligation after all.
- 5.10 On the other hand, we consider that the forthcoming introduction of banding into the RO, together with the move to a headroom system for the calculation of the RO target after 2015, will mean that the value of a ROC in terms of new renewable capacity will become less clear. We therefore propose that it should be for the certification body to decide what the additional environmental benefit is from a given level of ROC retirement, and how to compare this with decentralised green funds or carbon offsets for example.

6. Ranking

- 6.1 The full and accurate disclosure of FMD information will provide transparency and allow for the reliable ranking of tariffs on the basis of carbon intensity and renewable electricity content. The emphasis of the proposed scheme should remain on accurate disclosure of information as the basis for ranking.
- 6.2 This information can be illustrated in different ways, including a banding system such as that proposed by Ofgem. Under no circumstances should any illustration be based on anything other than the information contained in the FMD declaration. The independent certification body, appointed by Ofgem, BERR and Defra should provide consumers with objective information about renewable and low carbon tariffs. (This is discussed in more detail below.)

7. Independent certification

- 7.1 The FMD and reconciliation rules should be regulatory requirements placed on suppliers, and enforceable by Ofgem. There is however still a role for an independent certification body, to check, present and rank the information from the FMD declarations and from the audits, and to assess suppliers' claims of additional environmental benefit. energywatch proposes that Ofgem set up a group of stakeholders to advise on the appointment process of the independent certification body. BERR and Defra should be involved in the appointment process given the important parallels with the Carbon Reduction Target, the Climate Change Agreements, rules for carbon offsetting and carbon footprinting, and so on. The certification body itself should be subject to audit, for example by UKAS or BSI.
- 7.2 It is essential that such a body if funded by suppliers is independent of suppliers. (It can be indirectly funded by suppliers through licence fees.) The body must be answerable to Ofgem who must retain the duty and power of enforcement. Experience with Future Energy, the former accreditation

scheme, as well as in other sectors, has shown that schemes owned and funded by market participants lack teeth and are not perceived to be impartial and rigorous. In addition, there is evidence that they tend to favour large players (who contribute more funding) and exclude small players.

- 7.3 The independent body should also be responsible for auditing suppliers, ensuring that their reconciliation is accurate and for regulating the accuracy of any claims they make in respect of carbon offsets, green funds and ROC retirement. The criteria for assessing these claims should be developed with the ASA as well as those involved in assessing the carbon impacts of household energy consumption.

8. Deliberative forums and consumer testing

- 8.1 energywatch welcomes Ofgem's decision to hold a series of deliberative forums to road test its proposals. We would welcome involvement and access to the full results of these sessions. We consider the design of these events to be fundamental if useful results are to be generated. It may be sensible to re-run some of the groups once Ofgem has developed its final proposals.

energywatch's responses to individual questions

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

energywatch thinks it is essential that consumers have access to full information regarding the fuel mix of their supply. Both domestic and non-domestic consumers have a wide variety of motives for wishing to purchase renewable and low carbon supply. As a result there is a premium value attributable to it. However for the market to operate effectively full information is essential. We therefore think that provision of information must be mandatory for all suppliers and all tariffs.

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?

energywatch does not consider that a voluntary approach would deliver the necessary certainty for consumers that will ensure demand is stimulated. We therefore think that the scheme should be mandatory for all suppliers, building on the existing Fuel Mix Disclosure regulations. We think that Renewable Energy Guarantees of Origin (REGOs) and renewable Levy Exemption Certificates (LECs) should be required as evidence of supply.

There must be no further possibility of claiming the same unit of electricity is renewable twice or even three times. This is the root of so much of the confusion in this area. The provision of accurate information must therefore be mandatory. The complexities surrounding the market, and potential to mislead, even if unintentionally, make it important that suppliers' claims about tariffs are audited and monitored by an independent body.

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

energywatch considers it important that non-domestic consumers are covered by the mandatory rules. As explained in the introduction, it is likely that the majority of renewable electricity will be bought by non-domestic consumers who have considerable buying power. It is therefore important that the rules apply to all consumers.

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

energywatch does not consider that CSR is the driving force behind the demand for renewable and low carbon electricity. As explained in the introduction, this is being driven by environmental management systems and legal requirements which go far beyond the demands of CSR. It is essential to recognise the need that a wide range of bodies have for accredited renewable and low carbon electricity.

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?

energywatch does not support the development of separate sets of rules for renewable and low carbon electricity. The two concepts are inextricably interlinked and many people consider the two terms to be interchangeable. Renewable electricity is an important contributory factor to low carbon energy. In addition, very few suppliers offer 100% renewable electricity in their tariffs. Therefore almost all 'renewable' tariffs are in fact low carbon tariffs. We are therefore strongly opposed to the development of two sets of rules. Consumers should be able to tell at a glance what the carbon content of their electricity supply is and how much renewable and non-renewable electricity it contains.

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?

energywatch considers that suppliers should inform consumers in a standard form of words that they are not necessarily contributing to increased renewable capacity by signing up to a renewable tariff and that they are already contributing around £10 a year per household to increasing renewable capacity. If consumers are receiving a supply with no renewable content (because this has been diverted to other consumers) then they should also be informed about that.

We are opposed to suppliers in this context having to provide information about the Carbon Emissions Reduction Target. This is complex information to convey since on average consumers receive benefits as well as costs from it. The programme only covers domestic consumers and many households who have benefited are not aware that they have. (For example households who purchase new appliances are often not aware that these are subsidised by the CERT programme.) We are therefore concerned that Ofgem's proposals would not lead to a balanced picture being given to consumers and we do not consider this information to be relevant to low carbon electricity supply.

We think it would be an option for suppliers to explain to consumers why the costs of the EU Emissions Trading Scheme are being passed through to them, even if they are buying renewable electricity. This is complex information which needs to be conveyed in a standard format including agreed annual sums for the contribution.

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?

It is essential that consumers know the carbon content of their electricity supply and how this compares with the carbon content of the average standard fuel mix.

Consumers should have access to information about their own supply (tariff) as well as the supplier's total supply. Consumers should also know what proportion of their supply is comprised of electricity from renewable and low carbon sources, and what the technology is that has been used to generate the electricity.

Consumers should also be made aware of the full environmental impacts of all fuel sources. This includes emissions of all greenhouse gases as well as SO₂ and NO_x, and, in the case of nuclear power, the amount of waste from the generation and how it is being treated and stored.

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

We strongly endorse the Fuel Mix Disclosure regulations as the basis for a mandatory regime. The regulations, jointly owned by BERR and Ofgem, need to be updated and the Supply Licence modified. Information about the individual renewable technologies could also be made available to consumers.

REGOs and renewable LECs should be required as evidence of supply. The inclusion of European Guarantees of Origin is currently under investigation by the European Commission. Ofgem should monitor developments closely as the UK system becomes a more integrated EU system.

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

energywatch is strongly of the opinion that both renewable LECs and REGOs should be required as evidence of renewable supply. Without this requirement it is inevitable that there will be double-selling of renewable electricity. This is a view shared by HMRC. The rationale for the exemption from the CCL is on the basis that the company in question has purchased renewable electricity. If in fact this has been sold to another party, the tax exemption is based on a false premise.

For domestic consumers. LECs should be retired; for non-domestic consumers they should be surrendered for tax purposes. CHP LECs should not be used as evidence of renewable supply. Some adjustments may be required for companies who have signed up to Climate Change Agreements. However in principle they should also have REGOs and renewable LECs to back the proportion of renewable electricity they have bought.

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

We do not have any accurate estimates as to what these costs might be. However, we do not consider setting up such a fund would be a sensible use of funds. It would be bureaucratic and reduce innovation on the part of individual suppliers.

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

energywatch has set out its views on the five options above. Overall, we consider that criteria should be developed for measuring additional environmental benefits, and that this should be done by the independent certification body. Suppliers should be free to offer additional environmental benefits, so long as they are additional and have first provided accurate information on the carbon and renewable content of the supply. Any assessment of the environmental value of these benefits must be based on agreed methods of assessment. Quality marks that demonstrate additionality must reflect these.

ROC retirement

We consider that suppliers should be free to retire ROCs in relation to all or part of their renewable supply. We agree that shortening the supply of ROCs should lead to increased investment in renewable capacity. This is especially true now that

some of the structural impediments such as planning and the grid are being solved. Suppliers would be expected to charge a premium for retiring ROCS and this would be recognised by the independent certification process.

However, we think the independent certification body should take account of further work to examine the impacts of changes to the RO to the link between ROCs and investment in new capacity. In particular, banding the RO by technology and moving towards a headroom system after 2015 will make the relationship between supply and demand less clear.

A centrally administered 'green' fund

As outlined above, energywatch does not back the concept of a centrally-administered 'green' fund. We consider that this would be an inappropriate task for Ofgem, even if it were devolved. We cannot see how it would fit into a competitive retail market where the emphasis is now on innovative low carbon packages, which may contain an element of renewable supply within them.

A decentralised 'green' fund

energywatch agrees that suppliers should be free to have their own decentralised green funds – which many already do. However, these should conform to minimum standards of transparency and openness and be managed by independent Trustees. They should also be subject to auditing on a regular basis. Any assessment of the environmental benefits of the fund must be agreed by the independent certification body, and need to take careful account of double-counting issues. Otherwise this area will become the focus of false and misleading claims in the future.

Improved transparency

energywatch urges Ofgem to base the future mandatory system clearly on the need for improved transparency, openness and consistency. This will allow for ranking of tariffs on the basis of carbon content and renewables.

In addition to this ranking (but not instead of it) some form of quality mark could be used to show additional environmental benefits. Criteria will have to carefully elaborated by the independent certification body.

Hybrid approach

energywatch considers that there is demand for renewable electricity and that this can therefore command a premium. This is why it is so essential that there is a fail-safe system for certifying the renewable content of individual tariffs as well as overall supply. On the other hand, suppliers who only supply minimum amounts of renewable electricity overall (i.e. the amount required by the RO each year) would not be expected to charge a premium for it – even if it is packaged and sold separately from other electricity. This should be the subject to competitive pressures and governed by normal fair trading rules.

Where a supplier supplies more than the amount of renewable electricity specified in the annual RO target, then there is a case for a premium to be charged for it. Equally where a supplier is supplying less than this amount there could be a case for a discount to be applied since presumably the renewable electricity is being sold to another consumer at a premium.

Suppliers who offer additional environmental benefits would also wish to charge a premium for them. These should be clearly in line with the value of the benefits on offer and the demand for them. The independent certification body should check that premiums are in line with additional benefits conferred. Otherwise, this would not need to be specifically regulated. It is important that consumers recognise that carbon has a value and that this should be transparent.

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

The system we have proposed in this response would require suppliers to inform consumers what proportion of their electricity supply is from renewable sources (as well as the supplier's overall supply). Indeed, it is unlikely that an individual tariff would be comprised of 100 per cent renewable electricity. In our view it is important to require suppliers to declare the proportion and then leave it to consumers to decide what they want on the basis of ranking.

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?

energywatch thinks this is appropriate, so long as the renewable content of each tariff is also declared and ranked separately. Consumers need both indicators since research shows that they use the terms interchangeably.

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

Provisions for this are already set out in the Fuel Mix Disclosure regulations. Essentially that part of the fuel mix that is centrally traded, or for which there is no declaration should be based on BERR's residual fuel mix. However, it would probably be appropriate to exclude the renewable and nuclear content from this as otherwise the results will be misleading. Suppliers should indicate the proportion of their fuel mix that has been calculated in this way.

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 eg CCS and CHP?

energywatch considers that it is appropriate to calculate carbon intensity in this way. Considerable work has been undertaken by Defra to assess the carbon impacts of CHP. CCS is a developing technology and a more accurate understanding of its potential to reduce carbon will become available as the trials progress.

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

energywatch considers the latter option would be more appropriate.

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

energywatch considers that it should be for the independent certification body to design the bands (or other visual aids) after full consultation with consumers and suppliers. As well as ranking in terms of carbon content, there also needs to be an indication of renewable content specifically. The proposed bands as currently illustrated contain some anomalies which should be ironed out, for example the inclusion of biomass in the 'high carbon' band. There may be other designs which are more informative for consumers.

18. Who should be responsible for setting the low carbon bands?

energywatch considers that it should be for the independent certification body to design the bands (or other visual aids) after full consultation with consumers and suppliers.

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?

We think that the contact with the independent certification body should be retendered every five years. At this time it would be appropriate to re-examine whatever ranking system was in use.

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

We think that a new timetable should be drawn up in view of the clear need for a mandatory regulatory approach to resolving this issue. Timescales would need to be built in for further consultation on the changes to the FMD regulations and the Supply Licence. Ofgem should progress these as quickly as possible with a view to having all the new arrangements in place by 1 October 2008.

21. Any other comments

energywatch considers that suppliers who offer carbon offsetting as an additional environmental benefit should be required to comply with Defra's Code of Practice on carbon offsetting. As with other additional environmental benefits, it should not form part of the carbon or renewable ranking of the tariff. Suppliers should make clear the value per tonne of CO₂ being offset and account for any administration or other costs.

Yours sincerely

Carole Pitkeathley
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