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Steve Russell
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Clair Hogg
Ofgem
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Wednesday 16 January 2008

Dear Clair,

**Cutting the green customer confusion – next steps**

We welcome the opportunity to comment on the near final proposals for guidelines for renewable and low carbon products.

We remain of the view that properly constructed guidelines will act as a catalyst for a vibrant market in renewable and low carbon supply. The guidelines must enable customers to confidently buy into any renewable or low carbon product. We support the proposal to separate out renewable and low carbon products into separate guidelines. The priority for implementation should be the introduction of the renewable guidelines and the supporting verification scheme, this reflects current customer interest. To that end we propose that further development of the low carbon guidelines is delayed for 6 months.

As we have previously stated transparency and verification are the key features which will enable customers to compare and contrast products fairly. The latest guidelines require the disclosure of a considerable amount of detailed information. In principle we are not adverse to this but the information must be prioritised and made available at different points in marketing and sales processes. We don't believe any additional information should be provided on bills as this would provide more clutter and have no proven benefit. Our detailed response shows how disclosure could be made in a way which facilitates a healthy market without deluging customers with information which would be superfluous to many.



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In previous discussions Ofgem representatives have suggested that one way to remove customer confusion with regard to renewable and low carbon products would be to avoid the term "green" in marketing energy products. We don't believe this is correct. Customers understand "green" in relation to energy tariffs to be indicative of a product with environmental features. To prevent the use of the word would be to put a restriction on energy retailing which is not present in other sectors.

We accept that customers could have difficulty comparing "green products" with different environmental benefits. We propose that a distinction should be drawn between "green products" and products with "green features". Essentially, a green energy product, and therefore able to use "green" in its name, would be one with the highest environmental standards i.e. 100% renewable electricity or gas with 100% verifiable carbon offset. Products with "green features" would be those that include environmental benefits e.g. energy efficiency measures, consumption information, carbon offset using VERs. In this way a customer can have confidence which products are truly green and choose between them or choose a conventional product with the environmental features they desire.

We endorse the ERA initiative to explore the different types of verification schemes required by the guidelines and welcome Ofgem's support for this.

We strongly believe that customers should have the freedom to choose products on the basis of full and transparent information and that they should not be guided towards products with little proven additional environmental benefit.

I attach our detailed responses to the questions posed in the consultation document and would be happy to discuss these with you.

Yours sincerely

Steve Russell
Regulatory Affairs Manager

**CUTTING THE GREEN CUSTOMER CONFUSION – NEXT STEPS**
**RESPONSE BY E.ON UK PLC**

1. *Do you think that that the provision of greater information will empower customers to make 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?*

   Whilst we believe that greater transparency will help customers make informed decisions the information needs to be presented in a clear way matched to the different requirements of customers. The majority of customers will want simple reassurance that the product does exactly what it is claimed to do and information presented in a way which enables product comparison. A few customers will want more comprehensive information. We believe that we can meet all customer requirements by providing the information in tiers (see response to question 7).

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

   Sign up to the guidelines should be voluntary. Once a supplier has signed up he agrees to comply with the guidelines and the verification scheme. Products which are confirmed as compliant with the guidelines through the verification scheme will be able to use the badges and/or carbon banding.
   In our view, if the final guidelines are pitched appropriately all suppliers will sign up as they will wish to market their products with the badge and carbon band associated with the respective guidelines. The badges and carbon band will become widely known and sought by those customers interested in renewable and/or low carbon products driving any remaining non-compliant products into "retirement".

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

   The guidelines need to be made publicly available, probably through the verifier's website so that non-domestic customers can become familiar with them. The badges for compliant products will be useful for non-

domestic customers to confirm the credentials of the products they are purchasing. However, the most important issue for non-domestic customers is likely to be the claims they can make about their "carbon footprint". The proposal to allocate carbon banding for all products and the disclosure processes should allow customers who choose a low carbon product to claim a reduced carbon footprint.

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

Yes, companies that purchase renewable or low carbon products which comply with the guidelines will find the guidelines useful providing they can make low carbon claims around their energy consumption (see response to question 3). If this is the case it will stimulate the demand for the renewable and low carbon products and have a "pull effect" on the low carbon generation market. DEFRA's document "Guidelines to DEFRA's GHG conversion factors for company reporting" need to be made consistent with low carbon guidelines. This would enable business customers who sign up to a 100% REGO backed renewable electricity contract to apply a zero electricity conversion factor.

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?*

Yes, most domestic customers who are interested in their carbon footprint will want products sourced from renewable generation rather than nuclear. In addition, the regulations affecting renewable generation are quite different to other low carbon generation.

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

Yes. It is important to customers understanding of renewable products to appreciate that they contribute to Government sponsored renewables programmes. The requisite information can be provided via a website. Suppliers should have discretion as to whether to explain other programmes such as CERT and any measures funded from EUETS auction revenues.

7. *Do you consider the information regarding the environmental benefits associated with "green" supply tariffs should be provided to customers in a standard format, and if so, what key information should be made available by suppliers to customers at the point of sale?*

Information provided to customers should be "tiered".

First tier information should be disclosed prior to the customer's commitment to the product. We suggest that to maximise its impact this first tier information should be limited to;

- Renewables badge (indicating that the product complies with the renewables guidelines)
- Carbon intensity band rating
- A statement which informs the customer that the energy in the product is part of the suppliers Renewables Obligations, if that is the case.
- Website address where more information can be found.

(Attachment 1 shows an example advertisement.)

The remaining information can be presented in a standard form (to allow easy comparison) on the supplier's website and include;

- Fuel Mix disclosure
- Description of the RO and the government's objectives for the RO.
- Industry average cost of RO
- For business customers, description of the Climate Change Levy and Levy Exemption Regulations.

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?*

Evidence of supply should follow Fuel Mix Disclosure requirements. However, the introduction of new products will require a forecast of Fuel Mix Disclosure. This will be very uncertain due to the difficulty in predicting the future availability of REGOs for any particular generation type and the likely volume of sales. The guidelines should require suppliers to estimate their forecast fuel mix broken down by generation type for any product which is sold on the basis of its renewable or low

carbon content. Suppliers should provide actual fuel mix for all products. Suppliers should NOT have to forecast fuel mix for products they are not making an environmental claim about. (see example on Attachment 2)

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

Where REGOs and LECs exist for a kWh of energy they should be "tied together" to ensure that the same kWh of energy is not sold as CCL exempt and sold separately as a renewable energy. This principle should also apply to good quality CHP. This will avoid suspicions of "double selling" by suppliers. We do not support the argument made by some suppliers that LECs are solely a tax avoidance instrument.

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

This is obviously difficult to estimate and will depend partly on the number of products which include a contribution to the fund. However, given the potentially high profile of the fund the evaluation of projects will need a robust degree of rigour to ensure that projects have a high likelihood of construction and that they will deliver their claimed benefits. The level of scrutiny will be similar to the diligence tests required by OFFER for NFFO 1 and 2 projects. Whilst the costs for this were not made public they were thought to be high.

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

No, we do not support Ofgem's conclusion proposal to adopt the **hybrid option**. This proposal is not consistent with a free market, where customers determine the value they place on a product. We firmly believe that **increased transparency** should be the preferred option. Providing customers with information in a structured way will give customers the means to determine which product is right for them.

Additionality is a possible product feature/differentiator and should NOT be mandated in the guidelines. We have set out below our views of the measures of additionality set out in the consultation.

**ROC retirement –** as indicated in our response of 6th August to the previous consultation we do not believe there is any evidence ROC retirement leads to additional renewable generation. Moreover, it would be arbitrary to set any minimum percentage as "additional" (1%, 5%, ?%) and significant risk of further change as government develops proposals to meet the EU commitment to 20% renewable energy by 2020. However, it should be a matter of customer choice and be available to those customers who wish to "buy into" the concept. It will be for those suppliers who wish to retire ROCs to substantiate any claims (in order to comply with Advertising Standards Agency codes) they make regarding the benefits of ROC retirement.

**Centralised fund** – E.ON is unlikely to develop products which would include a "centralised fund". However, we have no issue if a group of suppliers wishes to establish such fund. As the consultation document sets out the fund would need to be independently administered and use robust project selection criteria in order to instil customer confidence. In our view the application and evidential process of a centralised fund are likely to be bureaucratic and costly for developers and fund administrators alike.

**Decentralised fund –** E.ON could consider developing products which include a "decentralised" fund. We believe such funds offer the most scope for flexibility and more likely to support smaller scale projects. Suppliers who use "decentralised funds" should be prepared to provide transparency of the funds operations and offer up the accounts of the funds for independent verification.

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

The guidelines should cover 100% renewable electricity products only. This will provide clear separation between the renewable and low carbon guidelines enabling customers to easily differentiate between renewable and low carbon products. Allowing partial renewable products will increase customer confusion as it will allow renewable products which are not zero carbon banded. In any case, partial renewable products are likely to be lower carbon than conventional products and fall within the low carbon guidelines. This will be clear to customers through the lower carbon band shown in product disclosure.

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?*

Yes, providing it is accepted;

- that suppliers have the flexibility for the carbon band of other tariffs (i.e. products which are not marketed on their renewable content or carbon intensity) to reflect the suppliers residual fuel mix; and
- that the banding of existing products is based upon actual fuel mix and that forecasts are only required for newly launched renewable and low carbon tariffs and only until such time as data is reported in accordance with the Fuel Mix Disclosure regulations.

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

We would suggest that such electricity is declared at the residual fuel mix in accordance with current Fuel Mix Disclosure methodology.

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?*

Yes, standardised point of generation factors based on the fuel and generation technology type are the most sensible option (i.e. splitting gas generation in CCGT and gas CHP and in future, coal generation into sub critical and supercritical).

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

Yes it should be treated as low carbon as the sequestered carbon is not being emitted to the atmosphere and therefore it should not be included in the carbon intensity of the generation technology. As such a standardised emission factor for coal fired generation fitted with CCS will need to be developed if/when CCS technology is operationally deployed.

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

Yes, the bandings are appropriate. The granularity should be at the lower carbon end (Bands A, B & C) of the scale rather than at the higher end. This is where customer choice will ultimately be exercised. Customers are unlikely to select products on the difference between high and very high carbon content.

We would propose that suppliers have the freedom to add the effect of carbon offset to the banding. We suggest that this follows the form used in Energy Performance Certificates where the effect of proposed energy efficiency measures is visually shown to the householder (see Attachment 3 for an illustrative example).

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

Responsibility for organising a review should rest with the scheme accreditors. Banding should be adjusted following consultation with interested stakeholders inc. Ofgem, suppliers, and customers representative groups.

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?*

There needs to be flexibility to modify the banding over time. There should be no set timetable for this but should be influenced by market developments. Over time it could be expected that the number of Band E and F products would diminish as the electricity generation fuel mix becomes less carbon intense. It is open to the scheme accreditors to report on an annual basis the number of products in each Carbon Band and the total number of customers supplied on products in each Carbon Band.

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

We believe some aspects of the timetable are too short, particularly the requirement for suppliers to have products compliant with the content of the guidelines within 3 months. Changes may need to be made to products to comply with the guidelines and existing customers will need to be made aware of changes to their products. This will involve customer queries and in some cases product switching. This needs to be managed in an orderly fashion.

We also believe the priority should be to get the renewables guidelines agreed and the renewable verification scheme in place. The demand for low carbon guidelines does not appear to be customer led and whilst we agree with the proposals we feel they can be delayed for period of 6 months without detriment to customers.

We would suggest the following timetable as being reasonable and one which we would agree to;

| Publication of renewable guidelines | Date |
|---|---|
| Suppliers sign up to the renewable guidelines | Date + 2 months |
| Supplier ensure that products are compliant with the guidelines | Date + 6 months |
| Verification scheme in place | Date + 9-12* months depending on the chosen scheme* |

* A BSI type certification scheme involving third party certifiers working to a BSI standard will inherently take longer to develop and implement. We do not recommend this option.

**ATTACHMENT 1**

**EXAMPLE GREEN ADVERTISING SHOWING HOW CUSTOMERS CAN BE INFORMED OF THE RENEWABLES OBLIGATION AND THEIR CONTRIBUTION TO IT**

**Go Green from E.ON**

**100% renewable electricity**

**Your electricity consumption is matched with electricity supplied into the national grid from wind and hydro sources***

*Most of the electricity we use to match Go Green consumption counts towards the obligation placed on us by the Government to support renewable energy. The cost of meeting this obligation is paid for by all our customers. For more information on the Renewables Obligation and the source of the electricity behind Go Green, go to www.eonenergy.com/xxxxxx

**ATTACHMENT 2**

**EXAMPLE OF HOW RENEWABLE AND LOW CARBON PRODUCT FUEL MIX COULD WORK**

1. 1st March 2008 Renewable and Low Carbon Guidelines introduced. This is Supplier A's Fuel Mix Disclosure at that time (for the period 01/04/06 to 31/03/07). Supplier A has no existing renewable or low carbon products.

| Energy Source | % |
|---|---|
| Coal | 36.0 |
| Natural Gas | 39.0 |
| Nuclear | 19.0 |
| Renewables | 4.7 |
| Other | 2.1 |

2. On 01/06/2008 Supplier A launches two new tariffs;
   "Renewable tariff" - largely based upon Landfill gas and Biomass
   "Low Carbon tariff" - largely based upon Nuclear
   Information is provided on the suppliers website as follows;

**WEBSITE INFORMATION**

SUPPLIER A

**Fuel Mix (01/04/06 to 31/03/07)**

| Energy Source | % |
|---|---|
| Coal | 35.8 |
| Natural Gas | 38.8 |
| Nuclear | 18.6 |
| Renewables | 4.7 |
| Other | 2.1 |

PRODUCT FUEL MIXES

**Fuel Mix (01/04/06 to 31/03/07)**
Renewable Tariff

| Energy Source | % |
|---|---|
| Coal | n/a* |
| Natural Gas | n/a* |
| Nuclear | n/a* |
| Renewables - Landfill Gas | n/a* |
| Renewables - Biomass | n/a* |
| Renewables - Wind | n/a* |
| Renewables - Hydro | n/a* |
| Other | n/a* |

**Forecast Fuel Mix (to 31/03/09)**
Renewable Tariff
Carbon Rating - Band A

| Energy Source | % |
|---|---|
| Coal | 0 |
| Natural Gas | 0 |
| Nuclear | 0 |
| Renewables - Landfill Gas | 30 to 80 |
| Renewables - Biomass | 30 to 80 |
| Renewables - Wind | 0 to 10 |
| Renewables - Hydro | 0 to 10 |
| Other | 0 |

Low Carbon Tariff

| Energy Source | % |
|---|---|
| Coal | n/a* |
| Natural Gas | n/a* |
| Nuclear | n/a* |
| Renewables | n/a* |
| Other | n/a* |

Low Carbon Tariff
Carbon Rating - Band B

| Energy Source | % |
|---|---|
| Coal | 0 |
| Natural Gas | 0 to 10 |
| Nuclear | 90 to 100 |
| Renewables | 0 |
| Other | 0 |

n/a* = not available as product launched outside the period

Other Tariffs
Carbon Rating - Band D

| Energy Source | % |
|---|---|
| Coal | 35.8 |
| Natural Gas | 38.8 |
| Nuclear | 18.6 |
| Renewables | 4.7 |
| Other | 2.1 |

3. On 1 October 2008 new Fuel Mix Disclosure in accordance with the FMD Regulations. Supplier amends his website as follows;

**WEBSITE INFORMATION**

SUPPLIER A

**Fuel Mix (01/04/07 to 31/03/08)**

| **Energy Source** | **%** |
|---|---|
| Coal | 37.0 |
| Natural Gas | 35.0 |
| Nuclear | 19.3 |
| Renewables | 6.0 |
| Other | 2.7 |

PRODUCT FUEL MIXES

**Fuel Mix (01/04/07 to 31/03/08)**
Renewable Tariff

| **Energy Source** | **%** |
|---|---|
| Coal | n/a* |
| Natural Gas | n/a* |
| Nuclear | n/a* |
| Renewables - Landfill Gas | n/a* |
| Renewables - Biomass | n/a* |
| Renewables - Wind | n/a* |
| Renewables - Hydro | n/a* |
| Other | n/a* |

**Forecast Fuel Mix (to 31/03/09)**
Renewable Tariff
Carbon Rating - Band A

| **Energy Source** | **%** |
|---|---|
| Coal | 0 |
| Natural Gas | 0 |
| Nuclear | 0 |
| Renewables - Landfill Gas | 30 to 80 |
| Renewables - Biomass | 30 to 80 |
| Renewables - Wind | 0 to 10 |
| Renewables - Hydro | 0 to 10 |
| Other | 0 |

Low Carbon Tariff

| **Energy Source** | **%** |
|---|---|
| Coal | n/a* |
| Natural Gas | n/a* |
| Nuclear | n/a* |
| Renewables | n/a* |
| Other | n/a* |

Low Carbon Tariff
Carbon Rating - Band B

| **Energy Source** | **%** |
|---|---|
| Coal | 0 to 10 |
| Natural Gas | 0 to 10 |
| Nuclear | 90 to 100 |
| Renewables | 0 |
| Other | 0 |

n/a* = not available as product launched outside the period

Other Tariffs

Carbon Rating - Band D

| Energy Source | % |
|---|---|
| Coal | 37.0 |
| Natural Gas | 35.0 |
| Nuclear | 19.3 |
| Renewables | 6.0 |
| Other | 2.7 |

4. On 1 October 2009 new Fuel Mix Disclosure in accordance with the FMD Regulations. Supplier amends his website as follows;

5.

**WEBSITE INFORMATION**

SUPPLIER A

**Fuel Mix (01/04/08 to 31/03/09)**

| Energy Source | % |
|---|---|
| Coal | 35.4 |
| Natural Gas | 34.0 |
| Nuclear | 20.0 |
| Renewables | 7.8 |
| Other | 2.8 |

PRODUCT FUEL MIXES

**Fuel Mix (01/04/08 to 31/03/09)**

Renewable Tariff

| Energy Source | % |
|---|---|
| Coal | 0 |
| Natural Gas | 0 |
| Nuclear | 0 |
| Renewables - Landfill Gas | 40 |
| Renewables - Biomass | 55 |
| Renewables - Wind | 5 |
| Renewables - Hydro | 0 |
| Other | 0 |

Low Carbon Tariff

Carbon Rating - Band A

| Energy Source | % |
|---|---|
| Coal | 0 |
| Natural Gas | 0 |
| Nuclear | 100 |
| Renewables | 0 |
| Other | 0 |

Other Tariffs (no carbon claims made)

Carbon Rating - Band D

| Energy Source | % |
|---|---|
| Coal | 40.2 |
| Natural Gas | 38.6 |
| Nuclear | 17.0 |
| Renewables | 0.9 |
| Other | 3.2 |

**Forecast Fuel Mix (01/04/09 to 31/03/10)**

Renewable Tariff

Carbon Rating - Band A

| Energy Source | % |
|---|---|
| Coal | 0 |
| Natural Gas | 0 |
| Nuclear | 0 |
| Renewables - Landfill Gas | 30 to 80 |
| Renewables - Biomass | 30 to 80 |
| Renewables - Wind | 0 to 20 |
| Renewables - Hydro | 0 |
| Other | 0 |

Low Carbon Tariff

Carbon Rating - Band B

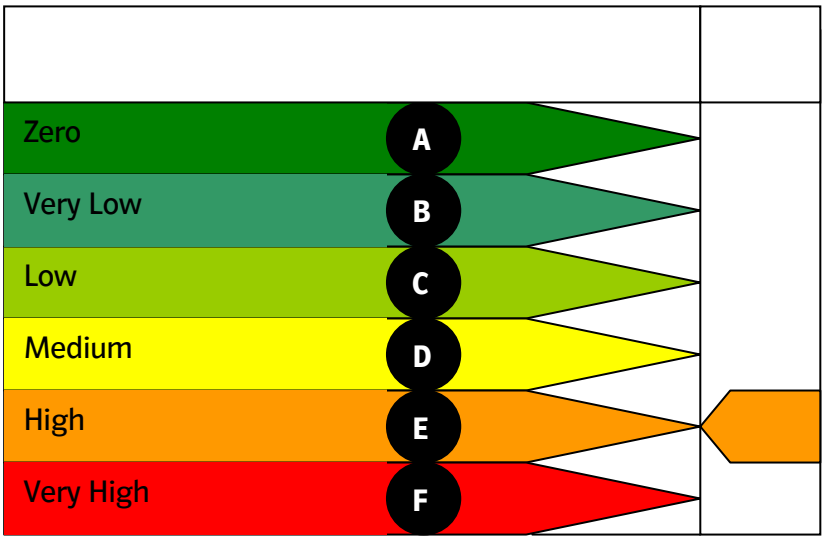
| Energy Source | % |
|---|---|
| Coal | 0 to 10 |
| Natural Gas | 0 to 10 |
| Nuclear | 90 to 100 |
| Renewables | 0 |
| Other | 0 |

Note: Assumes 7% of sales are Renewables Tariff and 5% sales are the Low Carbon Tariff

**ATTACHMENT 3**

**EXAMPLE OF HOW THE EFFECT OF CARBON OFFSET COULD BE VISUALLY DISPLAYED**

Basic tariff




Tariff with the effect of carbon offset shown