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Dear Clair/Hannah,

### **Cutting the green customer confusion – next steps (Consultation)**

The following is the response of RWE npower to the above document. We welcome the opportunity comment and the open manner in which Ofgem has conducted the process to date. This is important in order to arrive at a proportionate outcome that complements, rather than inhibits, market developments and principally the engagement of customers.

It is the latter that must be the ultimate objective, hence the title of this exercise. Such that the renewable/low carbon guidelines (and associated accreditation schemes) should avoid complexity and prescription at all costs. They should similarly not frustrate innovation and differentiation by suppliers that, notwithstanding some noise to the contrary, do have a dialogue with their customers and therefore an understanding of what they are seeking in this area. The transparency, clarity and independent verification of what is being put forward are key in this regard.

Detailed answers are provided in the Attachment to this letter to the questions posed in Appendix 2 to your document. However, it is worth setting down here our key issues and points:

- In the context of the above this must necessarily be a voluntary exercise to ensure that the focus is on customer engagement by suppliers, that the outcome is proportionate and thereby adheres to Better Regulation principles;
- Ofgem's guidelines and any subsequent independent accreditation of propositions should not therefore be overly prescriptive in its design, subsume any parts of existing mechanisms (i.e. ASA's role), so that breathing space is left for suppliers to innovate and engage;
- We concur with the proposed presentation to customers of a specific fuel mix (on FMD basis) when particular products are brought to market, but firmly do not believe there should be a requirement to present all (non- renewable / low carbon) tariffs on that basis.

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To do so would add to rather than reduce customer confusion and would be inappropriate and disproportionate. In particular by failing to acknowledge the arrangements for purchasing power and the fact there are essentially standard tariffs that only vary according to payment method, discount structure, etc. but not on a fuel contribution basis.

- Evidencing renewable supply: We accept the proposal to use REGOs to evidence renewable supply and the attachment to them of 100% LECs when that supply is to domestic customers. The proviso being that common sense prevails in respect of any mismatch in reporting mechanisms and the timing in the availability of data and its presentation to customers (at point of sale, web-site, etc.).

Our major concern here centres on the arrangements in evidencing renewable supply not distorting the development of the market and customers' understanding of it. On this basis we therefore believe that the use of European REGOs should be excluded altogether. Any insistence on embracing European REGOs should be on the basis of demonstrating that the country of origin of the output is not able to record the relevant renewable volume as their own. In addition there should be evidence of a physical path for the output to reach the UK, as is the case for imported LECs.

More problematic is the matter of output from legacy hydro schemes, that would meet the measures to evidence renewable supply, but would constitute a large share of the market but as a function of historical ownership rather than on a new development basis. It is therefore questionable whether, similar to its treatment under RO, whether the market should be constrained in this way so early in its evolution.

- We are pleased that Ofgem have set aside the issue of additionality, for suppliers to choose upon and demonstrate on a transparent basis. While we do have genuine reservations about the value of ROC retirement / centralised funds re consumer clarity and impact in market we agree it is appropriate to leave suppliers to pursue a level of additionality appropriate to them and the likely consumer engagement with that.
- On the proposed banding for the assessment, presentation of low carbon tariffs we are happy with what has been proposed. However, we do have reservations about the way in which the categories jump about between specific fuels (coal, gas, etc.) on the one hand and then a specific technology (in the form of combined heat and power) on the other. The treatment of Biomass within this framework also seems to be out of sync with how its environmental contribution is viewed by other stakeholders.
- Finally, Ofgem should not lose sight of the fact this new framework should be complementary to other developments/messages, in particular the push for greater energy efficiency and the appeal of that, particularly in the non-domestic sector, i.e. the greenest energy you can use is the energy you don't use.

We refer you to the detailed answers in our appendix and would be happy to discuss any of the issues raised in this response.

Yours sincerely,

Alan Hannaway

## Economic Regulation

## Appendix – Specific Answers to Questions Posed

No.	Chapter Ref.	Question	Response
1	3	Do you think 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?	In principle, yes, but npower's own market research indication a general lack of energy industry understanding amongst consumers. For instance, market research using AB1 consumers highlighted some major concerns ranging from "what happens when the wind is not present" to "do I have to rewire my house". This being the case, a lowest common denominator approach is potentially the most appropriate strategy to avoid further confusion.
2	3	Do you consider it appropriate for the guidelines to be voluntary where companies 'sign up' to comply with both the guidelines and accreditation scheme?	It is imperative that the guidelines are voluntary otherwise they will not be representative of or complementary to a competitive market, where accreditation could in turn lead to greater opportunity.
3	3	Do you think that the guidelines, as currently drafted, are appropriate for non-domestic customers or would changes be required to facilitate this?	In general terms our answers is yes, but the proposed quality mark and the A - F banding are too simplistic for most business customers' needs because they don't address their over-arching desire to reduce their energy consumption rather than procure their energy from renewable / low carbon sources. In our experience, the main driver for them is the management of their consumption (either because of government initiatives such as the CRC or simply because it makes good business sense to do so.)
4	3	Do you think that the guidelines, as currently drafted, are useful for companies to market their corporate social responsibility?	<p>Due to the shortage of renewable energy, backed by LECs, non-domestic customers generally have to pay a significant premium for this fuel source. This means that in the context of CSR customers tend to fall into three groups. Larger retailers who engage with the public and see a benefit to paying a premium; local authorities who would purchase renewable energy, but whose restricted budgets mean they would struggle to pay a premium and other organisations that don't see the benefits to paying a premium for this fuel source.</p> <p>The guidelines fail, in this respect, to pick up the nuances of the limited availability of renewable output and the constraints this places on companies because of the premiums that ensue.</p>
5	3	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 generation?	Yes, we strongly agree, particularly if the overriding objective is to reduce customer confusion. Allowing nuclear and renewables to be judged on similar lines would seem inappropriate in terms of the objectives of affording consumers greater clarity and a degree of protection.

6	3	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?	We are broadly supportive of what is being proposed here but have very real concerns on both the scope (in terms of programmes referenced) and presentational aspects of the information being provided. As indicated throughout, the objective is to provide clarity to consumers without too much complexity. We would therefore welcome further research and follow-up dialogue on this matter given the considerable impact supplying information to some 26m homes will have and the issues it might create if the process is not handled or explained to consumers properly i.e. through a media campaign.
7	3	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?	<p>Yes, labelling based on REGO and CO2 content. This rating will then provide the individual tariff with an A-E scale rating. However, it is inappropriate that suppliers be required to rate all their tariffs in this way as this is reflected in their overarching FMD, that in return largely reflects their historical generation portfolio.</p> <p>Consequently, the latter is not a true reflection of a company's environmental stance / aspirations, merely its position post-market privatisation and liberalisation.</p> <p>RWE Innogy intends to invest [around €1 billion per annum) in renewables, far more than many competitors, but cannot shy away from the fact that we have coal plant in our ownership from our historical legacy industry position.</p>
8	3	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?	Yes and the only acceptable method would be to compare a theoretical FMD (for the renewable tariff) compared to either an industry FMD or total supplier FMD in order to give a relative benchmark for the consumer to make a comparison and assess the tariff on its relative merit.
9	3	Should LECs be provided by suppliers in respect of renewable or low carbon tariffs where available?	100% in the case of supply to domestic consumers so as to prevent double counting.
10	3	What, in your opinion, would be the costs associated with the administration of a centrally administered 'green' fund?	We are not supportive of this approach, but would suggest this would be assessed, i.e. the use of the fund and the value for money of this model, through the accreditation process.
11	3	Do you agree with our assessment of the 5 options available to measure additionality including BE's and Centrica's proposals?	Yes, but firmly believe that suppliers must be left to choose their own process and preferences in respect of additionality, responding to market and consumer demand.

12	4	Do you think it is appropriate that renewable tariffs should comprise 100% renewable electricity or a stated percentage?	We do not believe there should be prescription in either case as suppliers should be free to develop tariffs they feel are appropriate to the requirements of the market. However, any labelling on a part percentage basis must be wholly transparent. If the tariff is only 20% from a renewable source, the labelling should reflect this.
13	4	Is it appropriate to rate supply tariffs by their carbon intensity to allow an at-a-glance comparison of different offering made by each suppliers as well as competing tariffs across different suppliers?	Yes, A to E, but limited only to tariffs accredited or seeking accreditation under that low carbon scheme.
14	4	What is appropriate treatment for electricity that is not supported by a REGO or generator declaration in order to calculate a tariff's emission intensity?	In a renewables context this would not apply as they must have a REGO. As with the above point, not all tariffs need to go through or seek accreditation through the process.
15	4	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 but we would refer you to above cover letter and comments about technology irregularities and the treatment of sustainable fuel sources.
16	4	Should CCS be treated as a low carbon technology or should the carbon sequestered be included in the calculation of emission intensity?	This is something of an academic question at this stage of plant development.
17	4	Are the illustrative bands presented in this document appropriate? If not, how should they be amended?	We are generally happy with what has been proposed, but have real reservations about how categories jump about between specific fuels and technologies and appear to treat one fuel source (biomass) out of sync with how it is viewed by other stakeholders.
18	4	Who should be responsible for setting the low carbon bands?	Our view is that some independent expertise should be brought to bear on the subject, outside of the guidelines / accreditation framework. At this stage we have no specific view on whom that might be.
19	4	Should the banding 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?	This should be reviewed over time as the market evolves, but perhaps should involve the establishment of a periodic Ofgem working group to discuss the matter rather than commit at this stage to tracking government led targets.
20	5	Do you agree with our proposals to progress compliance with the guidelines and development of the accreditation scheme?	No we believe the timeline is too short, that appears to have been confirmed by outside bodies i.e. BSI. In addition, this is a voluntary exercise to which progress should be demonstrated to you, but consequently should not be considered a matter of compliance in formal regulation terms.