

Dear Clair,

Cutting the Green Customer Confusion – next steps

Thank you for the opportunity to respond to the above consultation.

ScottishPower has a leading environmental commitment. Our strategic aim is to remain a world leader in renewable technology and our recent merger with the Iberdrola group means that together we are the biggest wind farm operator in the world with more than 16% of our combined capacity generated through wind power. Energy is a key component in the climate change debate and, in order to make a definite impact, we believe that consumer engagement and confidence is essential.

We are supportive of the overarching principles of guidelines for renewable tariffs and believe that if they are implemented on a voluntary basis and supported by an independent verification scheme, they have the potential to provide greater and more standard information transparency for consumers.

However, we believe that the proposals in relation to establishing low carbon guidelines and carbon intensity banding together with enhanced Fuel Mix disclosure requirements are premature at this stage and warrant further consideration for the following key reasons:

- We believe that Ofgem should further consider the interaction between the EU Directive on Fuel Labelling and the proposed guidelines for low carbon tariffs and carbon banding to avoid the potential for over-implementation of the Directive.
- In our view, the carbon banding proposals are far-reaching, aiming to encompass all tariffs offered by a supplier. The Fuel Mix Disclosure regulations were introduced following a lengthy consultation including discussions to include separate labels for green and brown products. Separate labels were rejected as an obligation but remain as an option within the Ofgem Best Practice Guidelines. We believe that until such time as the number of consumers with green tariffs materially alters the fuel mix that applies to other customers, there is no need to introduce detailed fuel mix requirements across all tariffs.
- Whilst we agree that a renewable based domestic tariff should be verified by the supplier holding the appropriate number of REGOs/GoOs and LECs to avoid the potential for double counting, the cost of the LECs is likely to be passed through to the customer via the pricing mechanism, resulting in positioning renewable tariffs at the premium end of the market. This means that low or no-carbon products, which could have the same environmental benefit in terms of carbon savings, are likely to be cheaper and therefore more appealing to customers. We would seek Ofgem's view on the potential for the sale of low carbon tariffs to exceed that of renewable tariffs and for Ofgem to consider if this is an intended outcome of this consultation.

In addition to the above points, we have provided full detailed answers to the consultation questions in the attached Annex.

ScottishPower is keen to work with Ofgem to establish a robust, accessible set of guidelines that will inspire confidence in customers, stakeholders and industry alike and we would welcome the opportunity to discuss our response further with Ofgem. I will be in touch separately to establish a suitable time.

In the meantime, please do not hesitate to contact me on 0141 568 3964 or via email at Alison.mckean@scottishpower.com if you have any questions or require any further information.

Yours sincerely

Alison McKean
Head of Environment
ScottishPower Energy Retail Limited

Executive Summary

ScottishPower aims to be a world leader in renewable energy, both in terms of renewable power generation and green energy sales. ScottishPower is currently the UK's largest developer and operator of onshore windfarms and has a proven track record in providing green energy to business and domestic customers. We were the first supplier to offer a choice of green energy options to our domestic customers. We are also a leader in energy efficiency initiatives delivering both our EEC1 and EEC2 targets ahead of schedule.

Our commitment to environmental Corporate Responsibility has been recognised most recently by our performance in the Scottish Business in the Community awards where we received 10 Big Tick awards, including one for tackling climate change through Green Energy Marketing for the third year in a row.

The need for secure, diverse, and sustainable electricity supplies has never been greater. And, in order to make a definite impact on reducing climate change, consumer engagement and confidence in greener products and their genuine environmental benefit is essential.

The green supply market remains a niche one, although with the potential to grow significantly as the issues associated with climate change become ever more prevalent in the consumer conscience. Clear, concise information will be essential in helping to empower consumers to drive the growth of the green supply market. This was supported by our own recent customer research activity, which identified lack of information and awareness as barriers that make it difficult for consumers to evaluate the relative 'greenness' of available products.

At ScottishPower we are proud of our environmental achievements and welcome the opportunity to respond to this consultation and to support the introduction of the guidelines and verification scheme that will assist in the development of a vibrant Green market.

ScottishPower believes that voluntary guidelines, supported by an independent verification scheme, have the potential to provide greater and more standard information transparency for consumers. Our key points are highlighted below with detailed answers to the consultation questions following on the attached Annex.

Greater Information

We recently carried out customer research to understand current attitudes within the market and it identified lack of information and awareness as barriers that make it difficult for consumers to evaluate the relative 'greenness' of available products. We therefore believe that providing clear and concise information for customers will assist them in making informed decisions about the tariff options available to them.

Voluntary Guidelines

We believe the guidelines should be voluntary and promote best practice. This will ensure that a framework will exist for suppliers to work within to create innovative product solutions.

Non-domestic Customers

The non-domestic market is further developed than the domestic market and is governed by a separate system, i.e. LECs under HMRC governance. However, there may be an advantage to including non-domestic customers in that it will encourage the same best practice methodologies of transparency and verification.

Renewable and Low Carbon Guidelines

The original consultation was issued following published consumer reports highlighting the customer confusion with regards to Green tariffs. We believe that the consultation should

focus on the delivery of renewable guidelines and an associated verification scheme and that the more complex proposals in relation to low carbon tariffs should be subject to a separate, more detailed consultation process.

Consultation Questions

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

Providing customers with more information in relation to the green supply tariff they are choosing will enable them to make a more informed choice and make comparisons between the different tariff options available to them. However, this must be considered within the context of existing requirements in this area, including Advertising Standards Authority and the Green Claims Code, and it is not appropriate for Ofgem to be overly prescriptive about how the information is presented to customers. Agreement should be reached on the type of information to be supplied and it should be left to suppliers to determine the most appropriate way of providing this, ensuring it is signposted clearly to customers.

- 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?**

We agree that the guidelines should be voluntary and promote best practice. This will ensure that a framework will exist for suppliers to work within to create innovative product solutions. We do not see the need for companies to 'sign up' to the guidelines and accreditation scheme. Suppliers should decide if they wish to submit their tariffs to the scheme to gain accreditation. We believe that this will act as a means of differentiation and will further promote competition in this sector. If a product receives a 'Green Badge' via the accreditation scheme then this demonstrates that it adheres to the principles of the guidelines. We would not expect Ofgem to have an enduring role once the Guidelines are in place, as compliance would be done via the independent accreditor.

- 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 objective of the guidelines in promoting information transparency for customers should equally apply to non-domestic customers and we support this principle. However, it should be recognised that the non-domestic market is further developed than the domestic market and governed by a separate system, i.e. LECS under HMRC governance. There may be an advantage to including non-domestic customers within the scope of the guidelines in that it will encourage the same best practice methodologies of transparency and verification. Business customers may also welcome the introduction of a 'Green badge', which will assist in enhancing their own Corporate Responsibility credentials. However, care needs to be taken that the inclusion of business customers within the scheme does not impose any further administrative burdens on suppliers. They need to operate within the same broad framework without imposing strict guidelines. This needs to be considered carefully whilst being mindful of other market mechanisms being introduced, such as the Carbon Reduction Commitment (CRC).

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

If a company markets a product that carries a 'Green badge' awarded under the criteria of the accreditation scheme, they may wish to refer to this within their wider Corporate Responsibility framework.

5. Do you consider that it is appropriate for separate sets of guidelines to be created for tariffs sourced from renewable generation and those sourced from non-renewable, low carbon generation?

The same overarching principles of transparency and verification should apply to renewable and low carbon tariffs and therefore the guidelines should be developed in such a way that both product types are covered. We recognise the differences between the two tariff types lends itself to developing separate guidelines, however, these should not be interlinked and must remain voluntary, i.e. companies should decide if they wish to submit tariffs for accreditation that fit within the remit of either set of guidelines. Establishment of Renewable guidelines should remain the priority, given that it is the alleged customer confusion over renewable offerings that require clarity. Low Carbon guidelines may be valuable but are not such a priority.

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

We support the provision of information to customers and believe this will empower them to make informed decisions regarding the type of tariff they wish to purchase and the level of any additional environmental benefit they wish to make. However, it should remain the decision of suppliers as to how they provide this information and the format should not be prescribed.

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?

The Advertising Standards Authority, ensuring that claims made in marketing communications can be verified, governs any information provided to customers. However, these standards do not prescribe how the information is provided and therefore suppliers can decide how they will present information and in what format. The customer should be provided with relevant, concise information that will aid their understanding and not be overly complex. The guidelines should complement this. We believe a minimum set of data should be provided, but that the industry should be free to provide additional information beyond the minimum data set and that the format of the data presentation should be left to the individual companies.

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

We support the use of REGOs/GoOs for evidence of green supply (and LECs where relevant). However, it is worth noting that the Fuel Mix Disclosure regulations benefit from the simplicity of aggregating all renewable technologies together and they do not require a breakdown of renewable energy by technology. The REGO IDs themselves do identify the specific technology and at present there are 14 discreet renewable technology types listed in the REGO accreditation application. Although it is possible to identify a particular source, the significant number of different sources could lead to customer confusion rather than aiding customer understanding.

We believe that the proposals to broaden the scope of the fuel mix disclosure requirements go beyond the current requirements of the EU directive on fuel labelling and Ofgem should avoid the potential for over-implementation. The Fuel Mix Disclosure regulations were introduced following a lengthy consultation period, which included the

option to publish separate Fuel Mix labels for green and brown products. The purpose of this consultation is to introduce a set of guidelines and a verification scheme that will inspire consumer confidence and begin to stimulate growth in the Green market. We believe that until such time as the number of consumers with green tariffs materially alters the fuel mix that applies to other customers, there is no need to introduce detailed fuel mix requirements across all tariffs.

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

When a tariff is being offered to a domestic customer as a renewable tariff this should be backed by REGOs/GoOs and LECs (where available) to avoid the LEC being sold separately into the non-domestic market and the renewable energy claims being effectively double counted. We do not believe LECs should be used in relation to a low carbon based offering. However, we are concerned that this will lead to low or no-carbon tariffs, which have equal environmental benefit, being priced cheaper than renewable tariffs, resulting in more consumers choosing these options. We would seek clarity on whether this was an intended outcome of this consultation.

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

We are unable to answer this question without having carried out a detailed cost analysis. However, reviewing the costs included within the appendix to the consultation document we would suggest such a centrally administered fund would be cost prohibitive to establish and maintain.

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

From the workshops and discussions we were involved in during the initial consultation period we agree that the assessment offers a fair representation of the various additionality options that have been discussed. However, our view remains that additionality should be an 'optional extra' and it is up to the supplier to develop products that may or may not include an additional environmental benefit element and to decide how this is delivered. The accreditation scheme would then provide the framework to support the assessment of the environmental benefits of one product against another.

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

We do not see an issue with a renewable tariff comprising a percentage of renewable electricity provided this is clearly explained to the consumer. However, this may have implications on cost, as there may be an expectation that a tariff comprising a percentage of renewable electricity would be priced lower than a 100% renewable tariff.

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?

We do not think the carbon banding proposals can or should be implemented without further consideration and consultation as to how this will be administered and measured. Carbon intensity has wider implications across the supply market such as security of supply, network balancing and the future of nuclear power and these factors must be considered in the wider context rather than suggesting it is a straightforward way to compare one tariff against another. Ofgem and industry should concentrate on the original objective of encouraging consumer confidence in the green supply market by

concentrating on renewable guidelines in the first instance. Once these are established we can use the experience to begin to widen the proposals to include low carbon and other tariffs, as appropriate. Recent customer research we undertook has demonstrated that those customers who are environmentally aware, albeit early on in their journey, would be reluctant to pay an additional premium for a green tariff. The carbon banding proposals are therefore unlikely to be of any interest or be understood by those customers that are happy to purchase a brown tariff.

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

Under the Fuel Mix Disclosure (FMD) regulations, power that is not supported by a REGO or generator declaration uses the industry average CO₂ emissions. A similar approach could be adopted here. However, it is worth noting that the simple approach to technology categories adopted in FMD fails to highlight the difference in emissions intensity resulting from different technology types for a particular fuel source, e.g. traditional coal generation, traditional coal generation with flue gas desulphurisation and integrated gasification combined cycle coal generation all have different efficiencies for the same fuel source.

As stated in 13 above, we believe the introduction of possible guidelines for carbon intensity should be subject to a separate and more detailed consultation to clarify how technologies should be valued with respect to carbon intensity of their output.

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

We believe it would be appropriate to use standardised guidelines for the purpose of demonstrating the carbon content of certain generation types. However, consideration must be given to the most appropriate level of technology breakdown to sufficiently differentiate between technologies but retain simplicity for the customer. We believe that the introduction of possible guidelines for carbon intensity should be subject to a separate and more detailed consultation, due to the reasons detailed in 14 above.

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

As per our responses in 13 – 15 above, we believe the detail to underpin a carbon intensity scheme should be subject to a separate and more detailed consultation to allow full recognition of the various sources of generation, including generation with CCS, and how these should be treated with respect to setting carbon intensity levels from a technical point of view to achieve an accurate and trusted set of standards.

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

As per our answer to question 13, our view is that the carbon banding and labelling proposals should be subject to further consultation prior to implementation.

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

Please see our response to question 13.

19. Should the bandings adjust over time to reflect a growing commitment to reduce the carbon intensity?

We would agree that the guidelines in general, and any relevant bandings beneath these, should be reviewed and be adjusted in line with the market where relevant. These also need to reflect other market mechanisms such as CERT and any post 2011 Supplier Obligation etc.

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

We fully support the development of guidelines that will provide a framework for the green market to evolve and to encourage consumer confidence. The consultation document includes detailed proposals relating to renewable and low carbon tariffs and adequate time should be given to enable stakeholders to fully consider the proposals and present their views, particularly given the long term implications for the market. We would propose that efforts are concentrated on the renewables guidelines at this stage before working on the more detailed low carbon proposals, allowing valuable lessons to be learned from our collective experience of the renewable proposals. Once finalised work can begin to develop the relevant accreditation scheme and sufficient time should be allowed to ensure this is done in a considered and robust way.