

Appendix 2: Draft Guidelines for Renewable tariffs – SSE comments

Aims of the guidelines

1.1 The key aims of these guidelines are to provide tariffs that apply the principles of:

Transparency: tariffs need to be clear and consistent with public understanding and expectations as to what constitutes renewable supply. Customers should have easy access to specific information regarding the tariff as well as more general information regarding renewable supply;

Comment: SSE fully supports the principle of transparency of information to customers and believes that this will be achieved via the implementation of the certification scheme, with the onus on the supplier to demonstrate to the scheme certifier that the claims made are genuine, rather than requiring the customer to understand the complexities of the renewable supply market. We agree that information should be made available to customers to help aid their understanding of what is meant by renewable. Such information could be credibly provided by the scheme certifier and/or the supplier. The guidelines should not be overly prescriptive regarding the information to be provided.

Evidence of supply: suppliers will need to have and retain evidence to verify all claims and to make it available to the publish or an external verifier;

Comment: Agreed, and it will be for the certifier to determine what evidence should be provided.

Additionality: customers choosing a renewable tariff need to be able to be satisfied that their support is contributing to additional environmental benefits;

Comment: Neither the guidelines nor the scheme should make judgements or endorsements of the environmental benefits offered by an individual tariff. Membership of the scheme places the onus on the supplier to prove satisfactorily to the certifier that claims made are genuine, such that the supplier is able to use the quality mark for that tariff. The use of the mark should provide the customer with confidence that any claims being made are genuine. The scheme and/or the supplier should provide the customer with access to further information about how the supplier has proved the claim.

Certification: suppliers will be required to develop a third party administered certification scheme, to employ a certification scheme operator, and to sign up to the scheme when implemented within given time periods;

Comment: SSE is working with other stakeholders to develop a third party administered scheme. Please see Appendix 3 which sets out our straw man proposal. We consider that the implementation timescales proposed in the consultation document are challenging, however the industry has a good track record in delivering such initiatives as demonstrated by the success of the Energy Supply Ombudsman. However we also consider it important to ensure that the best outcome is secured for customers, namely a robust and credible scheme is developed and implemented. In this regard, we believe that the guidelines should afford sufficient flexibility for the scheme to evolve, rather than being overly specific about its requirements.

1.2. These draft guidelines do not set out specific requirements with respect to how additionality should be delivered but provide increased information transparency so that customers are aware of the environmental benefits associated with the tariffs on offer. This does not preclude suppliers offering particular additional environmental benefits and including this in their marketing material.

Comment: We agree that the guidelines should not be specific about how additionality should be delivered. As stated above, it is not appropriate for either the guidelines or the certification scheme to make judgements about additionality.

Scope of the guidelines

1.3 The guidelines apply to all tariffs for both domestic and non-domestic customers that are marketed as renewable supply tariffs by suppliers who are signatories to them.

Comment: The principles of the guidelines such as information transparency should apply to all customers, domestic and non-domestic. For the domestic sector we agree that suppliers should also be required to be members of a certification scheme. We envisage that suppliers will apply to register tariffs under the scheme in order to have permission to use the quality mark and that the use of the scheme by all signatories to the guidelines will bolster consumer confidence in green supply.

Whilst this is a pragmatic approach for the domestic sector, we do not consider it practical or appropriate for it to be applied across the board to the non-domestic sector where in many cases bespoke contracts are negotiated. We therefore consider that there should not be a requirement for suppliers to be members of the certification scheme. To adopt this approach could be overly burdensome for the scheme operator and the associated costs could inhibit suppliers' activity in this sector where there are other initiatives such as the Carbon Reduction Commitment which are likely to stimulate demand for renewable products. However, for smaller non-domestic customers, there might be a demand for suppliers to attain a quality mark for their products. We therefore consider that there should be scope within the scheme for it to be extended to the non-domestic sector.

Renewable supply

1.4 To comply with these guidelines a supplier must provide Renewable Energy Guarantees of Origin (REGOs) or equivalent European Guarantees of Origin (GoOs) to support either of the following alternatives:

Alternative 1: 100% of the electricity sold to customers within the tariff; or

Alternative 2: A stated percentage of the electricity sold to customers within the tariff.

Comment: We agree that suppliers should provide either a REGO or a GoO as evidence of renewable (or low carbon) supply however we do not believe that the guidelines should restrict the type of tariffs that would qualify for approval under the certification scheme.

If the Guidelines are too specific about the types of tariffs that may be offered then they will need to be changed whenever a new or innovative product that is outwith scope is brought to market. We therefore see no reason why both alternatives proposed above or indeed other options should not be accommodated within the scheme, provided the supplier can satisfy the scheme operator that it can provide the appropriate evidence to authenticate its claim. The use of these two alternatives alone would appear to exclude, for example, fund-based tariffs which might not source any renewable supply today over and above the Renewables Obligation but which guarantee that all revenue is channelled towards new renewable generation. As stated previously, provided the supplier can certify its claims, we see no reason why such a tariff should not be eligible to apply to the scheme and be awarded the quality mark. As Ofgem indicated in its initial consultation on the guidelines suppliers should be able to bring innovative products to the competitive market that would qualify under the scheme provided they are transparent and are able to demonstrate the benefits claimed to the scheme's satisfaction.

1.5 For both alternatives: if the supply is to a domestic customer and there is a Levy Exemption Certificate (LEC) associated with the renewable supply, the supplier should also retire the LEC that relates to this supply.

Comment: Where a REGO has an associated LEC we agree with this approach as the rationale for doing this with a domestic sale is to remove the perception that there can be double-selling of the same renewable electricity in both the domestic and non-domestic market.

Transparency

General requirements

1.6. All marketing material and related information should be based on correct, up to date and specific information about the product that is being offered.

Comment: We agree that suppliers should be transparent about the information offered about the product, however we query the need to include this statement within the guidelines. Suppliers have licence obligations requiring them to provide customers with the principal terms of their supply and are already bound by marketing guidelines such as those of the Advertising Standards Agency (ASA).

1.7. The use of images and symbols should reflect the product being offered; for example, the use of images of wind generation should only be used for a tariff that includes a substantial portion of wind generation.

Comment: This is already covered by ASA and therefore does not need to be included in the Guidelines.

Requirements relating to individual supply tariff:

1.8. The supplier should include information on its website and in all marketing material and information related to the tariff so as to be available to the customer at the point of sale. This information should set out:

Alternative 1: that the renewable supply tariff meets Ofgem's Renewable Supply Godliness [and is certified] to guarantee that electricity equivalent to 100% of the customer's usage is generated from renewable technologies;

Alternative 2: that the renewable supply tariff meets Ofgem's Renewable Supply Guidelines [and is certified] to guarantee that electricity equivalent to the stated percentage of the customer's usage is generated from renewable technologies.

Comment: We believe that to include this within the guidelines is overly restrictive and does not take account of the fact that suppliers may use different sales channels to market their products to customers, such as broadcast media. Again, providing highly complex and detailed information at the point of sale places a considerable onus on the customer to absorb and understand the information. We suggest that for the generality of customers, knowledge that the supplier has attained the quality mark (which would have rules under the scheme associated with its use) should be sufficient. Furthermore, scheme awareness amongst customers and promotion of the scheme by all industry stakeholders will give customers confidence that it is credible to rely on the scheme when making decisions about green supply tariffs.

For both alternatives:

- the contribution to renewable energy made by the customer under its renewable supply tariff; and
- a Fuel Mix Disclosure chart for the renewable supply tariff showing the specific technologies employed (where these are included in the advertising of the tariff).

Comment: We do not consider it appropriate for the Guidelines to be so specific about the way in which suppliers provide such information to customers. We have concerns that there is potential to overload the customer and that it detracts from the objective of the certification scheme and the use of the quality mark which is to give the customer confidence that the claims being made about the product

are genuine. We suggest that general information about the renewables obligation should be provided by the scheme operator; this could be duplicated or supplemented by the supplier.

1.9. The supplier should include this information for all of the supply tariffs it makes available to customers i.e. not only those tariffs marketed as renewable or low carbon.

Comment: We are very concerned by this inclusion of this proposal under a voluntary Guidelines framework. This proposal goes much further than we had envisaged under green supply guidance and could have unintended consequences that have not been fully thought through. We do not consider that it could be implemented practically without significant costs and systems issues. Inevitably Fuel Mix Disclosure information would have to be caveated by suppliers as it is retrospective. We believe that there is a risk that customers would be confused by the inclusion of this data.

1.10. This list does not preclude suppliers providing any additional information with their renewable [or other] supply tariffs; for example associated greenhouse gas and nuclear waste information.

1.11 This list is also distinct from and additional to any other legal requirements on suppliers to release information associated with their tariffs.

Comment: We consider that a commitment to information transparency should be sufficient for the Guidelines and that they should not be overly prescriptive in terms of what should be provided to customers.

General environmental information

1.12. The supplier should also provide a statement on its website and in any marketing material or information relating to the tariff including the following information:

- suppliers have a Renewable Obligation under which they have to either pay a fee to Ofgem and/or buy Renewable Obligation Certificates to fulfil their annual obligation;
- the Government's ongoing aim of the Renewables Obligation is to encourage an increased amount of electricity to be generated from renewable technologies;
- the amount that the suppliers average domestic/non-domestic (as appropriate) customer on a standard electricity tariff is already contributing to renewable energy as a result of the Renewables Obligation;
- a description of suppliers' EEC obligations
- the amount that the supplier's average domestic/non-domestic (as appropriate) customer on a standard electricity tariff is already contributing towards the supplier's EEC obligations;
- for non-domestic tariffs, a description of the climate change levy and levy exemption regulations;
- for non-domestic tariffs, the average contribution that non-domestic customers make to support through climate change levy exemption certificates

Comment: We do not believe it is practical or relevant for the Guidelines to stipulate that all of the information described above should be provided to customers. Some of the information, such as a general explanation of the Renewables Obligation and the Carbon Emissions Reduction Commitment (CERT) could be included as standard information on the scheme operator's website and associated

material. We also note that this information and explanations of such initiatives are already provided on Ofgem's website.

However, it is simply not practical for a supplier to include all of the above information in, for example, a newspaper advertisement for a tariff. The ASA already sets out guidelines regarding the marketing of products to customers; what has been included here cuts across the remit of the ASA. Furthermore, the proposals do not take account of the commercial sensitivity of some of the information, the fact that not all suppliers will be caught by CERT, and that CERT does not apply to the non-domestic sector.

In addition, with regard to the CCL, the onus is on the non-domestic customer to demonstrate whether it is eligible for any exemption and to provide the appropriate evidence. As stated above, non-domestic customers are not typically supplied on "tariffs", rather they negotiate individual contracts with a supplier that will meet their specific needs. This could include the purchase of renewable or low carbon energy and/or Levy Exemption Certificates. We do not believe that our non-domestic customers would wish this commercially sensitive information to be in the public domain.

We also question whether it will be possible to produce the information in a format that will be genuinely meaningful and relevant to the generality of customers, particularly those in the domestic sector. More information does not necessarily mean less customer confusion.

1.13. The format of this information is discussed in paragraph 1.14 below:

Format of information

1.14. Suppliers should agree a format following consultation with consumers for the provision of the information specified in paragraphs [1.8 and 1.12] within 4 weeks of the publication of the final sets of revised guidelines.

Comment: In the competitive market suppliers should be able to differentiate themselves and should not be required to provide information of this nature to customers in a standard format. Such an approach would, in our view, be impractical. We do agree that there is a place for standard information to be made available to customers to help facilitate understanding and suggest that this is best undertaken by the scheme operator and endorsed by Ofgem and consumer groups. This would help give the scheme credibility with consumers.

1.15 Once the format described in paragraph [1.14.] above has been agreed between suppliers, it should then be sent to Ofgem. Ofgem will then publish the agreed format on its website for transparency.

Comment: see 1.14.

1.16. In agreeing the format of information under paragraph [1.14] above supplier should take into consideration the need to ensure that the information is as accessible to customers as possible as well as the need to keep the costs of publicising the information manageable.

Comment: We believe that this should be accommodated by the certification scheme.

1.17. Suppliers are required to provide the information in the format agreed under paragraph [1.14] above by May 2008 (3 months from the publication of the guidelines).

Comment: see 1.14.

Evidence of supply

1.18. Suppliers will need to have an retain evidence to verify that the total renewable energy sold under renewable supply tariffs does not exceed the amount of renewable generation claimed in the supplier's Fuel Mix Disclosure label.

1.19. A Renewable Energy Guarantee of Origin (REGO) or equivalent European Guarantee of Origin (GoOs), relating to the generation in the disclosure period should be provided.

1.20 Where specific technologies are specified, the supplier should obtain a generator declaration relating to that period indicating the renewable energy source.

Additional benefits associated with the tariff

1.21. Suppliers may choose to include other measures of additionality, above the required renewable supply detailed in either Alternative 1 or Alternative 2, as a way of distinguishing their product. If suppliers are offering such measures the following provisions will apply.

Deletion of Renewable Obligation Certificates (ROCs)

1.22. If suppliers use the acquisition of ROCs beyond those required for their obligation to provide an indication of additional benefits associated with their renewable tariff, these ROCs should be deleted from the Register or held by other parties, such as third party accreditation bodies.

Operation of funds

1.23. If the tariff includes contribution to a renewable fund, premiums realised under renewable tariffs should be paid into a fund that is completely and verifiably separated from the general accounts of the supplier. Third party auditing of payments into and out of the fund is essential to match money collected with payments made, and to verify consistency with the criteria for payments.

1.24. The criteria for payments into and out of the fund should be clear and published.

1.25. The criteria should also be clear in relation to the timing of expenditure; whether the expenditure is in the form of grants, loans or equity investments; and whether the provision is directed to commercial entities or community organisations.

1.26. In the case of commercial investment in new generating capacity, the treatment of future benefits, (e.g. from ROCs) will need to be addressed in detail.

1.27. Suppliers should evaluate expenditure from contribution-based tariffs and report to customers their performance against the funds criteria.

Comment: all of the above should, we feel, be left to be developed by the certification scheme; the Guidelines should not be restrictive or overly prescriptive.

Price differences for renewable tariffs

1.28. Where suppliers are able to clearly demonstrate the additional environmental benefits associated with a renewable tariff it is open for the supplier to add a premium to the price of the tariff in respect of these benefits in excess of the existing legal requirements n the supplier no premium should be charged.

Comment: We are surprised by Ofgem's proposals here. Price regulation was removed some years ago and in the competitive energy supply market this is clearly not appropriate. Logically a supplier is unlikely to find that a premium tariff which cannot demonstrate any environmental benefit will receive much take-up from customers and it is also unlikely to attain certification under the scheme or display the quality mark.

Third party assessment of renewable supply tariffs

1.29. Suppliers are required to develop a certification scheme for renewable supply tariffs and employ an independent certification body to operated the schema and certify the tariffs by August 2008 (6 months following publication of the guidelines).

Comment: We consider that the implementation timescales proposed in the consultation document are challenging, however the industry has a good track record in delivering such initiatives as demonstrated by the success of the Energy Supply Ombudsman. However we also consider it important to ensure that the best outcome is secured for customers, namely a robust and credible scheme is developed and implemented. In this regard, much depends on the extent to which Ofgem's proposals are amended as a result of this consultation and any impact that might have on the development of the scheme.

1.30. The scheme should include provisions to ensure the auditing and verification of claims and the creation of a renewable supply certification mark which can be assigned to all tariffs which fulfil the requirements set out in these guidelines.

Comment: This was not exactly how we had envisaged the scheme working in practice. It is our expectation that suppliers would apply to the scheme certifier to register a particular tariff which would be assessed by the scheme operator. If the tariff is accepted into the scheme the supplier would be able to use the certification mark in accordance with the rules of the scheme.

1.31. The certification scheme may also include provisions relating to the certification of low carbon supply tariffs if this is considered appropriate.

Comment: We agree that the scheme could be extended to include certification of low carbon tariffs.