



55 North Wharf Road
Paddington
London
W2 1LA
Mob: +44 (0)7990 517775
Fax: +44 (0)20 7087 8601
Email: nigelmcmamus@utilyx.com
www.utilyx.com
Monday, 21 January 2008

Clair Hogg
Ofgem
9 Millbank
London
SW1P 3GE

Dear Clair

Cutting the green confusion – Utilyx response

Utilyx is delighted to provide some comments in response to the consultation on “Cutting the green customer confusion”.

Utilyx is an energy consultancy that specializes in energy risk management and procurement for large energy consumer companies. We deal with energy suppliers and customers every day and are close to the energy markets as well understanding customers' perception of what they want and expect from the green energy market. This response is a Utilyx response and does not represent the views of any specific customers.

We agree firmly with the premise that it is very important to cut the confusion for buyers of energy, both at the domestic and non-domestic level. This brief letters sets out a few points of principle. A specific suggestion in respect of green labelling in in Appendix 1 and we includes some more detailed points in response to the consultation document at Appendix 2.

There is a great deal of confusion in the market at present and we fully endorse any efforts to reduce the confusion and complexity therein. Our main points of principle addressing this are:

Customers currently pay for more green energy than is actually being produced. This is because suppliers are recharging the RO on customers and taking green premia (partially through the LEC scheme). This drastically reduces the integrity of current green supply offerings (and they are more like charitable donations). We believe that a radical step that needs to be taken and to replace the ability for suppliers to recharge the RO on customers with a **market-based system**. Both methods deliver capital for new green/low carbon investment but there is clearly a demand for using a market-based approach which would be more consistent with a competitive supply industry. Crucially, and to address one of the main additonality problems, it would be much simpler if one system only were adopted as opposed to a hybrid of both.

The market-based system should be transparent and based on some form of labelling system (see Appendix 1). The RO scheme would remain unchanged. It would be funded by the certificate system and as long as the carbon benefit can be realised by customers (consistency with the **Carbon Reduction Commitment** (CRC) is important here) in their energy purchases then prices will rise and this will have the effect of bringing more renewable power on stream, including the more expensive, early phase technologies such as tidal power.

Introducing two schemes, one for renewables and one for low carbon will only add to the confusion and complexity. We believe that aiming for one robust scheme is the way forward and that it should be based on **carbon**.

The calculation of the carbon intensity factors and the auditing of any scheme that uses them must be carried out by an **independent third party**.

We look forward to seeing the next round of the consultation process in February. Furthermore, we would be interested in participating in any workshops that may be arranged on this topic.

Yours sincerely

Nigel McManus
Manager, Climate Group, Utilyx Ltd

APPENDIX 1 - Utilyx suggestion for the use of labels

We agree with the concepts set out in the consultation document for the use of banding based on carbon intensity factors. The calculation of these factors will be crucial and will require industry wide consultation and independent verification.

Our idea is based on an adjustment to the label proposal. We believe the label should in fact be a certificate and that the certificates become **traded commodities** evidenced using the Guarantee of Origin (GoO) concept. Mapping onto your illustration on page 27:

GoO A = zero carbon production
 GoO B = Very low carbon production
 GoO C = low carbon production

and so on.

Producers receive GoO's, ranked A-F (or whatever number of categories is deemed appropriate) for every unit of production. Suppliers experience customer demand for GoO's A-F and therefore a market emerges for each classification. Suppliers will need to manage their GoO A-F positions in order to satisfy customer demand. Premium prices for higher quality GoO's should emerge and the suppliers, and hence producers, will respond to customer demand (as in any other market such as organic produce). Premium prices for will pay for the RO as we would expect more revenue to be collected than is currently the case (as long as customers are able to realise the carbon value of their purchasing actions).

There is a slight complication around REGOs. Without any changes to the REGO scheme, a REGO could be traded as either GoO A or GoO B.

Using this method there is no attempt to follow all power trades in the system, which would be too damaging to trading liquidity if introduced. Whilst there is an imbalance between total produced power and total supplied power (reserve power, electrical losses etc) this would be a relatively minor aberration as compared to double or triple counting of green benefits that exists to date (but it is a complication that would need to be addressed).

We agree that measuring carbon intensity should be at the point of generation as opposed to considering the lifecycle of the technology (page 30).

APPENDIX 2 – more detailed comments

Two tariffs – renewable and low carbon

Whilst we understand the reasoning behind suggesting two tariffs, we believe that one robust set of rules will be complicated enough without doubling the complexity from the outset. The terms low and zero carbon are increasingly in common use now and agree that this is a good time to move away from the word 'green' to define all things environmentally friendly.

Renewable power generators are in the business of producing low or zero carbon power. There should only be one tariff and it should be aimed at ranking power sources by the degree of carbon intensity (as you suggest in section 4). This issue of nuclear power and its non carbon environmental impacts would need to be addressed.

Transparency

We endorse the need for the any system introduced to be transparent and for it to contain better information.

Mandatory vs Voluntary

We believe that certification scheme should be mandatory and agree with the proposal that the scheme should be managed by an independent third party.

Domestic and non-domestic

Our view is that the scheme should be as simple and robust as possible. We believe that suppliers are sophisticated enough and have the data available to be able to manage a labelling or certificate scheme for non domestic as well as domestic customers.

The use of LECS

Ideally the current role of LECs as a green label would be replaced by a single certification scheme. Some integration with the opportunity to offset the Climate Change Levy, and perhaps some grandfathering, would need to be considered.

To answer the question in the consultation, we do agree that if LECs were to be supplied to domestic customers, then they should be retired.

Additionality

Continuing with the theme of simplicity, we believe that it is more important to have a robust scheme than one that caters for every possible customer view point. Whilst we believe it is important for customers to be able to exercise choice in purchasing incremental green generation we believe that the certification route is not the way to do it as it would introduce a lot of complexity. We believe it is contractually possible for a customer to contract with incremental green generation but that it would still attract the same GoO certificate as if it were existing generation.

On the other type of additionality, and as discussed above, the fact that customers are already paying for the RO % of green supplied by suppliers, we state earlier that we believe it is time to consider replacing the ability of suppliers to re-charge customers for the RO and make better use of market signals instead; after all the supply of electricity is a competitive sector.

ROC retirement

We don't agree with the notion of ROC retirement. ROCs are a separate financing instrument designed to encourage the building of renewables and is aimed at producers. Indeed, more liquidity in the ROC market and not less is a good thing for encouraging the development of renewables.

In terms of funding the RO there is clearly an additionality and fairness problem in respect of satisfying customers' varying appetites for green power. Our view is that the RO should remain in place and it should be funded ultimately by customers by way of market signals. If the demand is there - and it will be as long as the carbon benefits of buying green power are in place – then prices will rise and this will have the effect of bringing more and more renewable power on stream, including the more expensive, early phase technologies such as tidal power.

Carbon offsetting

This is a difficult area for government because it requires considerable integration between government departments. For example, the links between a labelling/certificate solution and the CRC. Carbon offsetting and the EU ETS are clearly vehicles by which generators and customers can manage a carbon position (such as that which is expected to be introduced for customers under the CRC). Carbon offsetting should not be involved in this sort of labelling/certification scheme but needs to be addressed as part of the integrated debate on carbon.

Green funds

There are already countless green funds in the market place (and it is increasing). We don't believe it would be productive to start to consider centrally-administered funds and that we should let the market direct the customer signals to suppliers and producers.

Pursuing a decentralized fund route would be very complicated and in all likelihood would be at great expense, to satisfy this specific wish on behalf of some companies to demonstrate investment in incremental generation. We do fully support the idea of investing in new green generation but believe there are better ways of doing that than to embody it into a national power labelling scheme.

Section 4 - Renewable Tariff Guidelines

Alternative 1 – we think this is too restrictive.

Alternative 2 – this is closer to what we would suggest. The range of GoOs (say A-F) and associated carbon intensity factors would enable both suppliers and customers to calculate exactly their degree of carbon consumption. To that extent we agree with the low carbon guideline route.

Also, not all renewable electricity is zero carbon. Is there any reason why the different types of renewables are not considered in the banding? Some renewables do not burn any fossil fuels (other than indirectly in the equipment production process) and others do – perhaps the GoOs should be able to distinguish between say wind and energy from waste? The document does refer to a review process and we would support the use such a review process.