

The green supply guidelines: Updated proposals

Document type: Consultation

Ref: 97/08

Date of publication: 16 July 2008

Deadline for response: 27 August 2008

Target audience: This document will be of interest to suppliers, customers, certification service providers, environmental bodies and agencies, NGOs and other interested parties.

Overview:

The majority of electricity suppliers currently offer green tariffs to both domestic and non-domestic customers. However, customers are not always clear what these tariffs deliver in terms of environmental benefits and the way in which they are treated in carbon reporting has recently changed.

In June 2007 Ofgem commenced a process of consultation with stakeholders to revise the existing guidelines on green supply. This document sets out Ofgem's updated proposals for revision of the guidelines. The proposals place increased emphasis on transparency, ensuring that green claims are verifiable and, crucially, make the demonstration of environmental benefit a central part of the guidelines. They will help customers understand whether, if they sign up to a green tariff, this leads to any action by the supplier that will benefit the environment, rather than just repackaging activities that customers are already funding. The proposals are consistent with Defra's recent decision on carbon reporting guidelines, which moves away from green tariffs being treated as zero carbon.

It remains our intention that following the finalisation of these guidelines, an associated accreditation scheme will be developed, the aim of which will be to provide assurance to consumers that green claims made by suppliers are credible and can be substantiated.

Contact name and details: Hannah Cook, Senior Manager

Tel: 020 7901 7444

Email: hannah.cook@ofgem.gov.uk

Team: European Strategy and Environment

Context

Tackling climate change is now a global priority. At an EU level, Member States have committed to setting targets to reduce the overall level of greenhouse gas emissions and to increase the contribution of renewable energy by 2020. The energy sector has an important role to play in meeting these challenges as it accounts for approximately half of all greenhouse gas emissions.

Ofgem's primary objective is to protect present and future customer interests through promoting competition where appropriate. We also have an important role in contributing to sustainable development as a result of our duties under the Energy Act 2004. This is a key area for Ofgem not only from a customer protection perspective but also to improve the level of transparency and understanding of the market for green tariffs. We believe that this will motivate suppliers to engage in innovative environmental activities to demonstrate to consumers that the green tariffs they are offering facilitate environmental benefit.

Associated Documents

Guidelines on Green Supply Offerings, April 2002

http://www.ofgem.gov.uk/Sustainability/Environmnt/Policy/Documents1/2183-31green_supply_offerings_guidelines.pdf

Developing Guidelines for Green Supply, Consultation Document, June 2007

<http://www.ofgem.gov.uk/Sustainability/Environmnt/Policy/Documents1/Developing%20Guidelines%20on%20Green%20Supply.pdf>

Materials from the series of workshops held in June - July and wrap-up workshops in September

<http://www.ofgem.gov.uk/Sustainability/Environmnt/Policy/Pages/Policy.aspx>

Cutting the Green Customer Confusion - Next Steps, November 2007

http://www.ofgem.gov.uk/Sustainability/Environmnt/Policy/Documents1/Cutting%20green%20customer%20confusion_consultation%20document.pdf

Consumers' Views on Renewable and Low Carbon Supply Tariffs Research Study Conducted for Ofgem, January 2008

<http://www.ofgem.gov.uk/Sustainability/Environmnt/Policy/Documents1/Final%20Report%20from%20Mori%20re%20Consumers'%20Views.pdf>

Way Forward: Cutting the Green Customer Confusion open letter

<http://www.ofgem.gov.uk/SUSTAINABILITY/ENVIRONMNT/POLICY/Documents1/Letter%20re%20way%20forward%2020%2002%2008.pdf>

Table of Contents

Summary	1
Progress to date	1
The proposals.....	1
Rating system	2
Way Forward.....	2
1. Background	3
Rationale for the green supply guidelines	3
Progress in the market	4
Process to date.....	4
Linkages with other government initiatives	5
Structure of the document	6
Way Forward.....	6
2. The guidelines: Progress to updated proposals	7
Consideration of proposals in light of responses	7
Rationale underpinning updated proposals.....	8
Reflection on the November proposals	8
Developing proposals	9
3. The guidelines: proposed approach	12
Status of the guidelines	12
Scope of the guidelines.....	13
Content of the guidelines	13
Transparency	13
Tier 1 information	14
Tier 2 information	15
Tier 3 information	15
Evidence of supply.....	16
Environmental benefits.....	16
Domestic consumers	17
Non-domestics	20
Enforcement of the guidelines.....	22
4. Way Forward: The accreditation scheme	23
Signing up to the guidelines	23
Development of the accreditation scheme	23
Timeframes going forward	24
Appendices	25
Appendix 1: The November consultation	26
Key proposals in the November consultation	26
Status.....	26
Transparency	27
Evidence of supply.....	27
Additionality	28
Responses to the November consultation	29
Status.....	29
Scope	29
Transparency	30
Evidence of supply.....	30

Additionality	30
The MORI Research.....	31
Appendix 2: The draft guidelines	32
Aims of the guidelines	32
Status of the guidelines	33
Scope of the guidelines.....	33
Transparency	33
General requirements	33
Provision of information on a tiered basis	34
Tier 1 information	34
Tier 2 information	35
Tier 3 information	35
Evidence of supply	36
Additional benefits associated with the tariff: domestics	36
Measures of additionality	36
Rating of additionality	38
Additional benefits associated with the tariff – non-domestics	38
Measures of additionality	38
Rating of additionality	39
Assessment of whether benefits are additional	39
Third party assessment of green tariffs	40
Appendix 3: Consultation Response and Questions	41
Appendix 4: The Authority's Powers and Duties	43
Appendix 5: Glossary	45
Appendix 6: Feedback Questionnaire.....	51

Summary

Progress to date

In December 2006, the National Consumer Council (NCC) published a report on green tariffs following the completion of consumer research in this area. The report highlighted significant problems in the market in terms of high levels of customer confusion and a mistrust of suppliers.

Following consultation documents in June and November 2007, numerous workshops and bilateral meetings with stakeholders and research commissioned from MORI into domestic customer views, we have now developed proposals to update the guidelines. These build on the idea in our November paper that green tariffs should be "green" (i.e. benefit the environment). Instead of proposing to cap prices so that no premium can be charged unless an environmental benefit is demonstrated, we now propose to introduce a ranking scheme to indicate the scale of activity that the supplier is undertaking. The proposed guidelines no longer have any link to the prices charged for green tariffs.

We have also moved away from proposals to show the carbon content of particular tariffs. Our concern here is to give a clear message to customers about the carbon content of their electricity use - increased use of electricity will lead to increased greenhouse gas emissions, whatever tariff a customer is on. Put another way, there is no direct link between changes in a customer's use of energy and changes in the output of the generators (renewable or otherwise) that a supplier has contracted with. Therefore, the best available proxy for the carbon content of electricity consumption is the grid mix, which will be consistent with Defra's proposals on its voluntary Guidelines for Company Reporting on Greenhouse Gas Emissions.

The proposals

The focus of our proposals is to provide clarity to customers on whether the green tariff they sign up to has some environmental benefit. As part of this, we do not think it would be acceptable for suppliers to market a tariff as "green" if it simply involves repackaging existing generation so that some customers are attributed more and others less - there must be some environmental benefit to justify the "green" label.

It is then necessary to define "environmental benefit". Having taken advice and considered related areas, we propose to define "environmental benefit" as a requirement that green tariffs must incorporate: *an activity that results in the delivery of an environmental benefit that would not occur under a 'Business as Usual' scenario*. We are keen to ensure that innovation in green tariffs is not stifled in terms of the type of, and means through which, additional environmental benefits are secured. We therefore propose to base the guidelines on this principle, rather than a defined list of measures. However, to improve understanding we will provide examples of measures which we consider would be eligible.

In our view, a green tariff based solely on a reallocation of existing generation does not meet the above definition of "environmental benefit" at present. Investment in renewable electricity generation is primarily being driven by the Renewables Obligation, subject to supply-side constraints such as planning and grid access. We do not think that encouraging some customers to pay more for "green electricity" will have a material impact, particularly when the new targets for renewable energy by 2020 will involve such a dramatic increase in requirements and potentially in financial support. We would envisage keeping this under review and if the level of renewable generation approaches the level of the target, then additional generation may be more plausible. Furthermore, in principle, we would see support for smaller-scale or community based generation, outside the main business as usual response to the RO, as potentially eligible if a workable definition can be found.

We recognise that customers may well be interested in understanding which types of generation their supplier contracts with. We therefore propose to retain a supplier-level fuel mix description in the information presented to customers.

Rating system

We propose to establish different bands, so that customers can get a simple indication of the scale of environmental benefit, alongside a plain English description of what the supplier is doing. In principle, we consider that the best approach would be to rate on the scale of environmental benefit achieved (such as carbon emissions abated). However, this raises a number of practical difficulties as it may be difficult to convert some measures into a calculated carbon abatement value. A system based on financial expenditure by suppliers may be more practical in the near term, at least for domestic customers to allow a wider range of potential environmental benefits to be taken into account.

These requirements would also be supplemented by a requirement to provide transparent information at the point of sale. The information would be presented on a tiered basis to allow consumers with different preferences on the level of information provision to access the relevant information they need. Under this approach, the first tier of information would constitute a set of symbols depicting the attributes of the tariff, the second tier would include an explanation of each of the symbols presented and the third would provide information regarding the energy market to place the first and second tier information in context.

Way Forward

We remain of the view that it is of crucial importance that consumers can have confidence in the claims that are made for green tariffs. We continue to believe the development of an associated accreditation scheme is key to the success of the guidelines. To establish the basis for taking this work forward we request that suppliers, in responding to these proposals, let us know whether they accept the proposals in principle. We welcome comments from all stakeholders on the questions set out in this document by 27 August 2008.

1. Background

Chapter Summary

- ➔ This chapter provides details of the rationale for the implementation of the original green supply guidelines in April 2002 as well as the stimulus behind the work that was initiated in June 2007 to revise some of the existing provisions. In this respect, the chapter outlines the process that has been followed to date as well as any interlinking policy initiatives of which it has been necessary for us to be aware.

Question box

There are no specific questions in this chapter.

Rationale for the green supply guidelines

1.1. The green supply guidelines were originally put in place in April 2002. At the time of implementation, the key aims of the guidelines were to:

- clarify the relationship between the mandatory Renewables Obligation (RO) and the voluntary market for green supply;
- clarify suppliers' obligations with respect to the marketing of green supply tariffs;
- provide guidance to suppliers on best practice in the marketing of green tariffs in the domestic market; and
- provide confidence to consumers that green tariffs are credible and defensible.

1.2. We felt that it was important to allow consumers to be able to make informed choices on the basis of verifiable information to ensure that, where they wished to, they could support the environment through their choice of electricity supply. However, we had concerns that misleading green claims could limit the potential for green tariffs to facilitate environmental improvements as they could discourage investments in genuine environmental activities which could subsequently demotivate customers.

Progress in the market

1.3. The 2006 National Consumer Council (NCC) report "Reality or Rhetoric"¹ highlighted that there was continuing customer confusion in relation to the market for green tariffs as well as a growing consumer mistrust of supplier claims in this area. In addition, we saw the potential for green tariffs to contribute to reduction in carbon emissions and increased renewable generation.

1.4. Given both of these issues, we felt that it was important that we re-examined the guidelines and amended them, where appropriate, to seek to remove any consumer confusion in this area and to ensure that they remained applicable to this rapidly evolving market. In undertaking this re-evaluation of the guidelines, we made it clear that we considered that the principles outlined in the original green supply guidelines, published in April 2002, remained appropriate. Therefore, we set out that where suppliers sought to sell green tariffs to consumers these should:

- **Be transparent:** Customers should have access to key information regarding green tariffs to enable them to fully understand the attributes of these tariffs;
- **Be verifiable:** Suppliers should be able to provide evidence for any green tariff claims made, in terms of both the source of its supply and any additional attributes of the tariff; and
- **Incorporate additionality:** Suppliers should be able to demonstrate that they are doing something above the obligations that they would fulfil for a standard tariff.

Process to date

1.5. In recognition of continuing customer confusion regarding 'green' tariffs, in June 2007² we published a consultation document containing proposals to revise the existing guidelines on 'green' supply and to develop an associated independent third party accreditation scheme. To complement this consultation, we adopted a programme of active stakeholder engagement to ensure that we fully understood the views of interested parties on these proposals. The process was extremely useful in helping to move the debate forward and, in view of the evolution of our proposals;

¹ Reality or Rhetoric? Green tariffs for domestic consumers by Virginia Graham for the National Consumer Council (NCC), available from: http://www.ncc.org.uk/nccpdf/poldocs/NCC144rr_reality_or_rhetoric.pdf

² Developing guidelines for green supply, 4 June 2007, available from: <http://www.ofgem.gov.uk/Sustainability/Environmnt/Policy/Documents1/Developing%20Guidelines%20on%20Green%20Supply.pdf>

we thought it was appropriate to issue a second consultation, which was published in November 2007³.

1.6. We received a significant number of responses to the second consultation that we undertook, which closed in January. At the same time, MORI presented us with the results of some domestic customer research regarding green tariffs which we had commissioned them to undertake⁴. In light of these responses, we were impelled to reassess our proposals regarding the green supply guidelines. In particular, the stakeholder responses highlighted a continued lack of consensus on the issue of additionality and the MORI research suggested that customers had an expectation that, if they signed up for a green tariff, this would lead to an environmental benefit (that would not otherwise have happened). We therefore had a concern that although the concept of additionality was important to consumers, the consultation responses revealed that there was no consensus on how this should be defined within the guidelines. As such, in February 2008, we published an open letter to all stakeholders outlining that we had decided to further develop certain elements of the guidelines, particularly in relation to 'additionality'⁵.

1.7. Following publication of this letter, we engaged a panel of environmental consultants to obtain their advice regarding an appropriate definition of additionality within the guidelines. This has helped us to develop a robust set of proposals which now incorporate a requirement to demonstrate additionality as part of any green tariff offered to consumers.

Linkages with other government initiatives

1.8. Until recently Defra's voluntary Guidelines for Company Reporting on Greenhouse Gas Emissions permitted organisations to claim zero carbon emissions where they had contracted for a green tariff. However, in June 2008 Defra published a press release in which it outlined the increasing difficulty of demonstrating that purchase of a green tariff would confer additional carbon emissions reductions over and above those that would be seen as a result of compliance with existing government initiatives such as the Renewables Obligation⁶. As such, Defra has chosen to amend the voluntary Guidelines for Company Reporting on Greenhouse

³ Cutting the Green Customer Confusion - Next Steps, 21 November 2007, available from: http://www.ofgem.gov.uk/Sustainability/Environmnt/Policy/Documents1/Cutting%20green%20customer%20confusion_consultation%20document.pdf

⁴ Consumers' Views on Renewable and Low Carbon Supply Tariffs Research Study Conducted for Ofgem, MORI, January 2008, available from: <http://www.ofgem.gov.uk/Sustainability/Environmnt/Policy/Documents1/Final%20Report%20from%20Mori%20re%20Consumers'%20Views.pdf>

⁵ Letter from Martin Crouch Re: Way Forward: Cutting the Green Customer Confusion, 21 February 2008, available from: <http://www.ofgem.gov.uk/Sustainability/Environmnt/Policy/Documents1/Letter%20re%20way%20forward%202002%2008.pdf>

⁶ NEWS RELEASE, Green Tariffs: Check what yours delivers, 16 June 2008, available from: <http://www.defra.gov.uk/news/2008/080616a.htm>

Gas Emissions so that, for the reporting year 2008/09, they expect that best practice will be for businesses to use a grid average rate of carbon emissions, unless their supplier can prove that the carbon benefits associated with their tariff are additional. Defra have confirmed that they will consult on how additional environmental or carbon benefits could be reflected in the guidelines. The changes are consistent with the proposals in this document as well as the approach taken on Defra's Carbon Reduction Commitment which also uses grid average carbon emissions.

Structure of the document

1.9. Chapter 2 outlines the rationale underpinning the change of policy direction since the receipt of responses to the November consultation and the results of the MORI research in January 2007. Chapter 3 of this document provides an overview of our updated proposals on the green supply guidelines while Chapter 4 provides details of our proposed way forward, including our intended approach to the development of an associated independent third party accreditation scheme.

Way Forward

1.10. We would welcome the views of interested parties regarding all aspects of this consultation document, particularly with respect to the questions set out in each chapter. Responses should be sent to sabreena.juneja@ofgem.gov.uk and be received no later than 27 August 2008. Details of how to respond can be found in Appendix 1.

1.11. Once the consultation process is complete, we intend to issue a revised set of guidelines in September 2008. We would expect suppliers to be compliant with the guidelines within 3 months of their publication (i.e. by the end of 2008) and for the associated accreditation scheme to also be in place by this time. We are keen to hear the views of interested stakeholders with respect to the most appropriate way to progress the certification scheme.

2. The guidelines: Progress to updated proposals

Chapter Summary

- ➔ This chapter provides an overview of the reasons underpinning our proposed approach to the green supply guidelines.

Question box

There are no specific questions in this chapter.

Consideration of proposals in light of responses

2.1. As outlined in Chapter 1, we received responses to the November consultation in January 2008 and, at the same time, received the results of some domestic customer research that we had commissioned MORI to undertake. In light of these responses, we recognised the importance of understanding the environmental benefits associated with green tariffs (also known as "additionality").

2.2. We have been keen to ensure that we keep stakeholders informed of the direction of policy regarding the green supply guidelines. To this end, in February 2008, we published an open letter to stakeholders outlining that we had decided to further develop certain elements of the guidelines, particularly in relation to 'additionality'. To complement this, we have attended a number of meetings led by the Energy Retail Association (ERA) regarding the establishment of an independent accreditation scheme and held numerous bilateral meetings with suppliers, energywatch, the National Consumer Council (NCC) and other government departments to outline the direction of policy and better understand their views.

2.3. Defra has also recently made changes to its voluntary Guidelines for Company Reporting on Greenhouse Gas Emissions and therefore we have been mindful of these changes in the development of policy regarding the guidelines for green supply⁷. In this respect, we have remained apprised of Defra's likely direction of policy to ensure that we can develop a consistent policy on these issues.

⁷ For more details regarding the changes in Defra's position on this please see paragraph 1.8.

Rationale underpinning updated proposals

Reflection on the November proposals

2.4. We recognise, from the NCC report published in December 2006 as well as from our own customer research, a significant amount of confusion remains with respect to the market for green tariffs. We acknowledge that further clarity and customer awareness of the attributes of green tariffs may have been achieved through the implementation of carbon intensity bandings for individual tariffs, as proposed in the November consultation⁸. However, we have concerns that, under this approach, consumers may have thought that their electricity consumption was not leading to carbon emissions, or that there was a direct link between their electricity consumption and the use of renewable generation. This could lead to further mistrust from consumers in the event that they discovered that their green tariff did not lead to any change in the overall generation mix or any environmental benefit, and that they were already paying for renewable generation anyway.

2.5. A number of stakeholders have suggested that the use of carbon bandings would help raise awareness among consumers of environmental issues associated with energy use. We recognise that there is some merit in this argument, although any measures to raise awareness should be based on a fair representation of the impact. As noted above, the suggestion that "your" carbon emissions can be reduced by switching to a green tariff is not consistent with the unfortunate fact that this has no impact on GB emissions from the electricity sector (or at least not the same impact as is described in the carbon banding). The explanation for this paradox is that with carbon banding, any savings made by one customer would be a notional re-allocation of the carbon to a different customer, or spread across all customers who would be unlikely to notice.

2.6. Some stakeholders have argued that a label of carbon content based on generation contracts would provide a signal to suppliers and generators regarding the most appropriate future investment to meet consumer demand and, in this respect, would provide a customer pull on investment. While we recognise that this mechanism could work well in an unrestricted market, we consider that in the electricity sector the intervention of the Renewables Obligation and the level of supply side constraints, e.g. planning and difficulties of obtaining grid access, would preclude this from happening. In addition, we anticipate that the substantial increase in renewables targets, and associated changes to increase financial support, will continue to be the predominant driver of new renewable generation, at least in terms of large scale wind farms.

⁸ For further details regarding the proposals to introduce carbon intensity bands, as contained within the November consultation, please see Appendix 1.

Developing proposals

2.7. We are keen to develop guidelines and an associated accreditation scheme to bring clarity to this market while also ensuring that, in line with domestic consumer expectations, their decision to sign up to a green tariff benefits the environment. More recently, it has also become evident that Defra's voluntary Guidelines for Company Reporting on Greenhouse Gas Emissions will not recommend that non-domestic consumers automatically claim zero carbon emissions for green tariff electricity in their voluntary corporate reporting. Therefore a new mechanism will need to be developed to recognise those customers that are taking steps to improve their environmental credentials.

2.8. Above all, we consider that it is paramount that the guidelines are underpinned by simple principles based in fact and that the accreditation scheme also works to provide assurance to consumers that, where they purchase a green tariff, they can be sure that claims being made by suppliers are credible. As such, it is crucial that two simple principles are abided by in developing the overarching principles of transparency, evidence of supply and environmental benefit or additionality. These principles are that:

- a) Where a consumer signs up to a green tariff there will be a subsequent and associated environmental benefit. Recognising that consumers have varying perceptions of what constitutes a credible environmental benefit we think it is crucial that suppliers make consumers aware of the additionality measure to which they are making a contribution; and
- b) Customers are clear that the electricity that they are consuming will have a carbon content that is equivalent to the carbon content of the average mix of electricity on the grid. In this respect, it should not be possible for suppliers to arbitrarily attribute certain segments of their generation portfolio to particular consumers or to suggest that their contracted generation portfolio makes electricity use zero or low carbon. Such claims are misleading as they give the impression that consumers are supporting additional renewable or low carbon generation, when in fact the supplier is simply re-badging their existing portfolio and, in some cases, charging a premium to do so. This practice may also be inconsistent with energy efficiency messages if it portrays the idea that their increased consumption will not detrimentally affect the environment. In fact, any increase in their consumption will likely be met by the generation of electricity through coal or gas-fired power stations and therefore, at best, the resulting energy can be considered to have a carbon intensity equivalent to that of the average grid mix.

A green tariff analogy

Given the complexity of the issues around green tariffs, one stakeholder suggested it may be helpful to explain the issue by reference to a simpler product: yogurt.

Consider a scenario under which all yoghurt manufacturers are required, as a result of government policy, to promote healthy eating to ensure 25% of the yoghurts they sell are fat-free. In this scenario the production of fat-free yoghurts costs more than the production of standard yoghurts but suppliers receive an associated subsidy. Some customers might want to buy yoghurt that is 100% fat-free, while others might not be interested in fat-free yoghurts at all. The solution to ensuring that all customers are able to purchase the yoghurt they want would be to require each manufacturer to accurately label each pack with its contents to allow customers to make an informed choice. It was suggested that the green tariff parallel would be to require labelling of the carbon and renewable content of each individual tariff offered by suppliers.

However, this omits some critical features of the electricity system. To explain our position on green tariffs, it is necessary to extend the analogy. Suppose that all yoghurt suppliers are required to send their ingredients to a central processing facility (known as "the grid"), where the ingredients get mixed together and the same volumes are then sent back to the supplier to send to their customers. Each supplier can include more fat-free ingredients in the yoghurts that they send to the grid and, indeed, they are encouraged to do so by a levy on those who submit less than average which is then paid out to those who provide more than average. But whatever the supplier submits to the grid, they get back a homogenised blend. These circumstances could be considered analogous to the electricity market, whereby renewables are transmitted to the grid by suppliers but the product delivered to consumers is homogenous.

In this scenario there are questions about what the label on the yoghurt pots should say. One option is to match the ingredients that the supplier bought to the yogurt that it delivers, which would allow these suppliers to place a further premium on the yoghurts that they sell on the basis that they sent healthy ingredients to the grid. If so, it would be important to establish accurate reporting of the ingredients purchased and submitted to the grid thereby replicating the current contractual/certificate based accounting route proposed by several stakeholders to be used to prove the content of individual green tariffs. Under this approach customers interested in healthier products could choose to buy premium products but, in reality, the mix in the pot will not be healthier. As such, it would appear more appropriate for the label on the yoghurt to reflect the blend of ingredients that are in the pot. This approach could be considered analogous to our current proposals to ensure that grid mix is used to represent the carbon content of electricity in green tariffs. Although customers may be interested in whether their supplier was virtuous in sourcing healthy ingredients (analogous to showing the supplier fuel mix information), that does not change the constitution of the product that they are ultimately getting.

In this world, suppliers interested in marketing to health-conscious customers, for which there is clearly a demand, would need to be more inventive. They may twin the yoghurts with other healthy products or just sell slightly smaller pots. This is a different sort of product, and it may take some work to get customers interested, but it is more honest than claiming that a homogenous product is better for you if it comes from some suppliers than others.

2.9. The need for development of the guidelines in compliance with paragraph 2.8(b) above is strengthened by the fact that, in line with the Renewables Obligation (RO), all consumers have already made a contribution to subsidise the further deployment of Renewable Obligation Certificates (ROCs). As such, tariffs which allow suppliers to repackage this heavily subsidised generation as green supply which consumers perceive to be "additional" may be misleading especially as our research suggests that the majority of domestic consumers are unaware of this subsidy.

2.10. Allocation of renewables to green tariff customers would also mean that the remainder of consumers, having also paid the subsidy under the RO, will effectively have their proportion of renewable generation arbitrarily allocated, without their consent, to another consumer that is on a green tariff. In addition, given that we are not currently close to achieving the renewables target embodied within the RO, it appears unlikely that suppliers will be able to provide their consumers with any truly "additional" renewable generation in the near future. The one exception to this is perhaps presented by small scale renewable technology which could be eligible for accreditation with respect to additionality. We are also sceptical that current practices on green tariffs will have a real impact on decisions to invest in new nuclear or CCS capacity.

2.11. We are keen that green tariffs can play a part in assisting the UK's transition to a low carbon economy and we are concerned that if suppliers are simply allowed to charge a premium for renewable or low carbon generation that is repackaged in a green tariff, this will not have any meaningful impact on greenhouse gas emissions. We therefore think that the incorporation of additionality within green tariffs is crucial to facilitate additional environmental benefits and, where possible, facilitate increased carbon abatement opportunities. As such, if suppliers were permitted to continue to sell green tariffs that do not embody any additional environmental benefits but simply repackage their existing generation portfolio, we consider that this would not only be misleading but also represent a missed opportunity.

2.12. Based on the issues outlined above we have amended the focus of the guidelines from the simple provision of transparent information to both facilitating transparency for consumers and ensuring that any green tariffs also incorporate additionality. The main provisions of the updated proposals are set out, in detail, in Chapter 3.

3. The guidelines: proposed approach

Chapter Summary

- ➔ This chapter provides an overview of our updated proposals to revise the green supply guidelines. This includes proposals regarding the status of the guidelines, their scope and the content of the guidelines. The proposals on the content of the guidelines relate specifically to the way that the principles of transparency, verification and environmental benefit should be incorporated within the marketing of green tariffs going forward.

Question box

Question 1: Do you think that the suggested information in tiers 2 and 3 is appropriate to ensure that consumers have access to the information they need?

Question 2: Are the examples of additionality that are suggested all correct? Should any alternative examples be included? Is the threshold of 1MW for small scale renewable/low carbon generation appropriate? If you think an alternative threshold would be more appropriate please explain why.

Question 3: Is the example related to the proposed bands (gold, silver, bronze, etc) appropriate? If you think an alternative way of setting a minimum standard and associated ratings would be better, please explain why and how it would work in practice.

Question 4: What are your views regarding the treatment of additionality for non-domestic customers, particularly with respect to the most appropriate way to rate these tariffs?

Status of the guidelines

3.1. Throughout the consultation process we have maintained the position that the guidelines should be a voluntary set of arrangements to ensure that they are largely self-regulatory. In addition, as the guidelines only set out the high level principles to which suppliers should comply when marketing green tariffs, we anticipate that the practice will be able to evolve in line with the evolution of the market.

3.2. In the event that a majority of suppliers chose not to sign up to the guidelines it could jeopardise the success of the scheme, in terms of raising awareness of green tariffs and reducing customer confusion, as success will ultimately hinge upon a brand awareness of the accreditation scheme. Under these circumstances, we would need to consider alternative ways to reduce the customer confusion that exists in this market. One alternative would be to commence a comprehensive customer information campaign to highlight the key issues with green tariffs and make consumers aware of the extent to which environmental benefits are facilitated as a result of their choice to sign up to these tariffs. An alternative approach would

involve discussing the option of making the scheme mandatory through the imposition of a formal licence condition. However, we are reluctant to follow this route given the need for supplier support to make the scheme work well in practice.

Scope of the guidelines

3.3. We continue to believe that it is appropriate for the guidelines to be applicable to both domestic and non-domestic customers. Given the relative size of their energy purchases, it is likely that inclusion of non-domestics could facilitate significant environmental benefits. In the event that it is possible to align Defra's Guidelines for Company Reporting on Greenhouse Gas Emissions and Carbon Reduction Commitment it may also be possible for green tariffs for non-domestics to achieve recognition under these schemes and for large non-domestics to market themselves on this basis. This may also help to stimulate innovation in the market for additionality as non-domestic customers demand ever more impressive products upon which they can base their marketing claims.

3.4. A universal application of the guidelines to all consumers will also ensure that Small and Medium Enterprises (SMEs) will benefit from the clarity that the guidelines and associated accreditation scheme are intended to provide. This is particularly important when it is considered that many of these customers effectively operate on a similar level of understanding as domestic consumers.

3.5. In previous consultation documents we proposed the extension of the guidelines to apply not only to renewables but also to low carbon generation. However, this distinction will no longer be meaningful given the change in our approach to the guidelines overall and, in particular, the removal of proposals to incorporate carbon intensity bands for all tariffs. Nonetheless, as part of the proposals regarding the treatment of additionality, measures that seek to facilitate a reduction in carbon emissions will qualify for accreditation alongside initiatives that seek to encourage further deployment of renewables.

Content of the guidelines

Transparency

3.6. One of the key objectives of the guidelines has always been to deliver transparency regarding green tariffs to facilitate consumer understanding of these products. However, we are aware that although at present there is some information available regarding green supply tariffs this is not always easy to understand and does not easily allow for comparisons to be made between competing green tariffs.

3.7. We are therefore keen that clear, simple and standardised information is provided to consumers to allow them to make more informed choices regarding green tariffs. We are however aware that different consumers have different needs in terms of the detail of information that they wish to have access to. In this respect, while some consumers consider that it is sufficient to know that the tariff

has been accredited by the independent accreditation scheme as this will provide assurance that it is in line with our guidelines, others will want to understand the finer details surrounding the accreditation and how it has been secured by a certain tariff. We therefore propose that information should be provided to consumers on a tiered basis, with three tiers of information accessible to consumers, providing varying levels of detail.

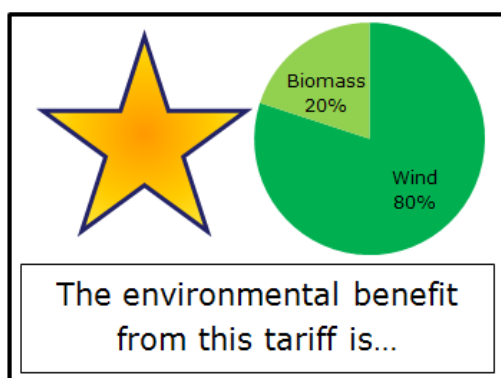
Tier 1 information

3.8. Under a tiered approach suppliers would be required to provide three pieces of "at a glance" information to consumers as part of the first tier of information. This would include:

- **A ranking outlining the extent to which additional environmental benefits are facilitated by the green tariff:** This could be, for example, a gold, silver, bronze or no additionality ranking;
- **A description of the additional environmental benefit that is facilitated by the green tariff:** A short description of the environmental benefit that the supplier is contributing towards on behalf of the customer; and
- **A fuel mix chart:** This would depict the overall supplier level fuel mix to give an indication to customers of the environmental credentials of the supplier.

3.9. This first tier of information would need to be provided to consumers at the point of sale to ensure that they have a minimum level of understanding of the green credentials of the tariff. In this context, point of sale refers to a point prior to the consumer signing a contract for a green tariff. Figure 3.1 below provides an indication of the way that this tier one information could be presented.

Figure 3.1: Mock example of the 'at a glance' tier one information



3.10. Clearly, in some cases, it will not be possible to provide customers with a pictorial representation of these attributes, e.g. where the sale is made over the phone, but it is important that consumers are made aware of this information prior

to entering into an agreement on the tariff. As such, in these instances, the information should be sent to consumers along with the contract to ensure that they have seen and understood the information regarding the tariff. Within this information there should also be links informing consumers of where they can go to access the tier two and three information.

3.11. We would be interested to hear the views of interested parties regarding the proposed tier 1 information and whether this is appropriate in terms of the provision of "at a glance" information to consumers.

Tier 2 information

3.12. The second tier of information should include an explanation of each of the symbols contained within the diagram in Figure 3.1, and should be available from a publicly accessible resource. The Tier 2 information would need to explain how and why certain tariffs can, and have, achieved, for example, a gold, silver or bronze rating as well as the significance of this symbol. It would also need to provide background information regarding the additional activity in which the supplier has engaged in relation to this tariff. In addition, the second tier of information should outline the significance of the fuel mix chart and provide details regarding the different generation technologies to assist consumer understanding in this regard. Suppliers should also provide a link to the information that they produce regarding their overall fuel mix, in compliance with Standard Supply Licence Condition 21⁹, which includes details of the CO₂ emissions and radioactive waste that is produced as a result of the total amount of electricity that they purchased during the period.

3.13. Over time we would anticipate that as consumers become increasingly familiar with the scheme and its objectives the relevance of the second tier of information will reduce but it will remain of use as a reference for consumers.

Tier 3 information

3.14. The third and final tier of information would provide more general background information regarding electricity tariffs and the environment to give consumers some context in terms of the issue of green tariffs. For example, to facilitate consumer understanding regarding the level of contribution to additionality that they would be keen to make (i.e. the premium that they chose to pay for a green tariff), the third tier of information should include data regarding the contributions consumers already make to existing environmental initiatives (e.g. for domestic consumers this includes the RO and the CERT and for non-domestic consumers this includes the Climate Change Levy or CCL). This information could be provided on the suppliers' websites as well as on Ofgem's website and the websites of other consumer organisations, e.g. the new NCC. We remain of the view that it is important that consistency is

⁹ Fuel Mix Disclosure arrangements

retained in terms of the information that is provided on the websites of individual suppliers and that the aspects of the market that they are describing are framed in similar ways.

3.15. We would be interested to understand whether stakeholders consider that the proposed tier 2 and 3 information would be appropriate in terms of ensuring that consumers have access to the relevant information regarding green tariffs to allow them to make an informed choice in this regard.

Evidence of supply

3.16. We have maintained throughout the consultation process that evidence of supply should follow the same requirements as those set out under the Fuel Mix Disclosure obligations. As such, where claims of renewable supply are made by suppliers they will need to be able to provide the required Renewable Energy Guarantees of Origin (REGOs) to verify this. In the case of any other source of generation, they would need to be able to provide the relevant generator declarations.

3.17. There have been a number of discussions throughout the consultation process regarding the role of Levy Exemption Certificates (LECs) and whether these should also be retired for green tariffs that are supplied to domestic consumers to avoid issues associated with double counting. With the removal of the proposals to provide information regarding the fuel source underpinning individual tariffs and the associated carbon intensity of that tariff, it would appear that this debate is now of less relevance.

3.18. With the proposed approach to environmental benefits, it becomes more important for suppliers to provide evidence of the additional activity they have undertaken, and potentially the costs associated with this, in a form that can be assessed and verified by a third party. We envisage that part of the process of establishing the accreditation system will be to reach agreement on the evidence that suppliers should provide.

Environmental benefits

3.19. In line with the expectation that where customers sign up to a green tariff an additional environmental benefit will be facilitated, we consider the following definition of additionality to be appropriate:

An activity that results in the delivery of an environmental benefit that would not occur under a 'Business as Usual' scenario.

3.20. However, it seems that the detailed requirements for additionality differ between domestic and non-domestic consumers. The following section outlines how we propose that additionality should be treated for these separate groups of consumer.

Domestic consumers

3.21. Following a consideration of stakeholder responses, research undertaken by MORI, advice received from environmental consultants and bilateral meetings with stakeholders, we have developed a possible model to define, measure and rank additionality for domestic customers. This approach provides a means by which the activities that will qualify as additional will be defined as well as a way to assess, and subsequently rank, this additionality. This is explained in the following sub-sections.

Examples of measures

3.22. To determine which measures and activities should qualify as additional, we consider that a principle-based approach supplemented with a non-exhaustive list of examples of additionality measures would be appropriate. This approach would have the benefit of providing certainty regarding a set of measures that would qualify as additional while also recognising that innovation may take place in this area in the future which we do not want to stifle.

3.23. We propose that the following non-exhaustive list of additionality activities could be considered to be eligible in the green supply guidelines:

- installation of energy efficiency technologies (outside of the CERT programme);
- other consumer behaviour measures, such as active demand management or smart metering (until or unless this is mandated);
- support for renewable heat installations;
- smaller-scale (e.g. community based) renewable electricity projects - a limit of 1 MW has been suggested for wind farms;
- retirement of EU allowances under the EU Emissions Trading Scheme (EU ETS);
- purchase of carbon offsets in line with Defra's Quality Assurance Scheme for Carbon Offsetting;
- research and development into emerging renewable technologies; and
- contribution to an environmental charity.

3.24. ROC retirement¹⁰ has been suggested as an example of additionality, but we have reservations about the effectiveness of ROC retirement in facilitating the

¹⁰ To retire a ROC, a supplier must write to Ofgem requesting this. Following the receipt of such a request, Ofgem will change the status of the ROC to 'retired' and it will no longer sit in the supplier's

deployment of additional renewable generation given the current constraints on the deployment of renewables, e.g. transmission access and planning issues. We would also note that the RO is currently under review as part of the government's consultation on the Renewable Energy Strategy (RES) and it may be appropriate to review the eligibility of ROC retirement pending the outcome of this consultation.

3.25. We would be keen to hear the views of interested parties regarding the measures of additionality that are outlined above and included within the draft guidelines which are available in Appendix 2. In particular, we would be keen to hear any views on ROC retirement as well as responses regarding whether the inclusion of a limit of 1MW for contribution to new renewable projects is appropriate.

Rating of additionality measures

3.26. In terms of the rating of additionality measures, we propose that it be based on the financial contribution made by suppliers on behalf of its customers.

3.27. In theory, a rating system based on carbon abatement would appear to be preferable as it would allow additionality measures to be rated on the basis of the contribution that they make in terms of progressing environmental objectives. However, there are real concerns with this approach in terms of accounting for the reductions in carbon that are observed. In this respect, it will be difficult to determine how much carbon abatement has taken place under a certain measure. It is also difficult to see how some measures could be accredited on the basis of the carbon abatement they facilitate, for example, investment in R&D or contribution to a green charity. This could have the unintended effect of limiting innovation in terms of the types of additionality that could qualify under the guidelines.

3.28. A rating system based on financial contribution would require that we define the level of supplier expenditure that would correspond to particular ratings. To some extent, this approach, coupled with transparency about what suppliers have spent the money on, may be self policing as suppliers would have an incentive to invest in projects that are credible with consumers and commentators in delivering environmental benefits. Over and above this, there is an option to provide greater information to consumers about the effectiveness of the additionality measures in which suppliers are choosing to invest. In this respect, as a greater understanding of the benefits that certain types of additionality, or individual projects, deliver is developed over time information of this nature could be published. This would also enhance the self-policing aspect of this form of additionality and could become an element on which suppliers could compete.




account. However the ROC will be kept in the register as evidence that it existed. Improvements to this system are set to be made in the next six months to allow suppliers to directly retire ROCs rather than Ofgem doing so on their behalf.

3.29. One approach to defining a minimum bar in terms of the financial contributions that suppliers must make to demonstrate additionality as well as to set bandings to allow additionality to be rated, for example, as gold, silver or bronze, could be to draw a parallel with the costs of current environmental programmes.

3.30. As part of the November consultation, we proposed that it would be appropriate to provide consumers with information regarding the contributions that they are already making to the Carbon Emissions Reduction Target (CERT) (previously the Energy Efficiency Commitment (EEC)) and the RO. The rationale for this is that many customers are not currently aware that they are already contributing to certain environmental initiatives and that providing this information to them would allow them to reach a more informed decision as to whether they want to sign up to a green tariff to facilitate further environmental benefits.

3.31. A potential approach to setting thresholds could be to require that suppliers must “match” the amount that they already pay under government initiatives with their own contribution. This could be presented in a similar way to the example outlined in Figure 3.2 below.

Figure 3.2 – Example of the way that additionality could be rated

Gold additionality	Silver additionality	Bronze additionality	No additionality
			Not applicable
What does this mean? Your supplier has contributed around £40 to environmental projects	What does this mean? Your supplier has contributed around £20 to environmental projects	What does this mean? Your supplier has contributed around £10 to environmental projects	What does this mean? Your supplier has not contributed to environmental projects as part of this tariff

3.32. In recognition of the variations in consumer bills that may be observed across different types of consumers dependent upon their fuel usage, we consider it would be appropriate for these figures to be equivalent to a percentage of a consumer bill.

3.33. If an approach similar to this were to be adopted, it would appear appropriate for the additionality bands to be regularly reviewed to ensure that they remain appropriate.

3.34. We would be interested to understand the views of stakeholders regarding the proposed approach to setting a minimum standard, and associated ratings, for additionality. In particular, we would be keen to understand whether stakeholders have any alternative suggestions regarding the way that additionality should be measured and effectively rated.

3.35. We would emphasise that whichever approach is adopted, we would be keen to review its effectiveness at an appropriate point in the future to ensure that it is delivering benefits for consumers and that it is not placing an unduly onerous requirement upon the accreditation scheme in terms of auditing supplier claims. Any scheme of this sort will rely on participants wanting to make it work and complying with the spirit of the guidelines rather than spending their time searching for loopholes. If we were to have concerns about how the scheme was operating we would raise them with the supplier concerned and the accreditation body - if they were not resolved we could withdraw our support.

Non-domestics

3.36. We recognise that some of the motivation underpinning the desire for additionality on the part of non-domestic consumers may be linked to the positive marketing messages that they could subsequently use on the basis of their green credentials. We recognise that there are a number of ways in which this could be achieved and therefore we would be keen to hear the views of interested parties regarding the various options outlined below.

Definition of measures

3.37. To ensure consistency with the requirements on additionality for non-domestic tariffs, we think that it would be appropriate to align the types of measures that would qualify as additional. Therefore, we consider a principle-based approach (facilitation of environmental benefits over and above those that arise under a 'Business as Usual' scenario) would be appropriate, supplemented by a non-exhaustive list of examples.

Rating of additionality measures

3.38. In principle, we think the inclusion of additionality rankings for non-domestic green tariffs would be beneficial as it would maintain consistency with the proposals for domestic tariffs and could facilitate greater awareness of the scheme amongst domestic customers if companies were to use these rankings in their marketing. As such, the proposals outlined above could be extended to non-domestic consumers such that to demonstrate additionality suppliers would have to show that they were making a financial contribution toward additionality measures equivalent to a certain percentage of the non-domestic customer bill.

3.39. However, we are aware that there are a number of initiatives in place such as the Carbon Reduction Commitment and the Carbon Trust Standard which place emphasis on the reduction of energy use and hence carbon emissions by non-

domestic consumers. These initiatives are targeted, for the most part, on the implementation of measures by the non-domestic customer to facilitate a reduction in energy use. To address this, additionality for non-domestic consumers could be demonstrated where suppliers seek to make contributions to direct or indirect carbon abatement measures on the behalf of these customers. Clearly this would have an impact upon the measures that would qualify as additional for non-domestic consumers under the guidelines but to retain consistency with the domestic provisions, as far as possible, we would propose that the measures should include:

- retirement of EU allowances under the EU Emissions Trading Scheme (EU ETS);
- contribution to the development and deployment of on-site renewables;
- purchase of carbon offsets in line with Defra's Quality Assurance Scheme for Carbon Offsetting; and
- contribution to the installation of energy efficient technologies.

3.40. Under this approach a question would remain as to whether it would be appropriate to incorporate ratings of additionality for non-domestics. One option would be to focus on transparency of the volume of carbon abatement. An alternative option would be to apply ratings stating the level of carbon abatement that would need to be achieved to be able to use these ratings. Under this approach, a similar method could be utilised as the example that is outlined in Figure 2 above with respect to additionality for domestic green tariffs and therefore the awarding of bronze, silver and gold stars (or an equivalent) could be used. However, questions would remain regarding the level at which the ratings should be set e.g. should 25%, 50% or 75% carbon abatement have to be demonstrated to be awarded a rating.

3.41. We would therefore be keen to understand the views of stakeholders regarding the potential approaches to the definition and measurement of additionality for non-domestics. In particular, we would be interested to understand:

- whether stakeholders consider that the measurement of additionality for non-domestics should be based upon the demonstration of a certain level of expenditure by suppliers (for example as a percentage of the bill);
- whether the practical issues associated with measuring carbon abatement to demonstrate additionality could be overcome for non-domestic consumers;
- whether stakeholders think that additionality for non-domestics should be rated in a similar way to additionality for non-domestics and, if so, how these ratings should be determined; and
- stakeholder views regarding any alternative ways to measure and rate additionality for non-domestic consumers.

Enforcement of the guidelines

3.42. We have proposed that the guidelines on green supply would be voluntary in nature and therefore suppliers will take their own individual decisions as to whether they chose to sign up to these guidelines and the associated accreditation scheme. However, in the event that suppliers choose to sign up to the guidelines and are found to be in breach of the high level principles contained within them or the arrangements underpinning the accreditation scheme, there will need to be sanctions in place to ensure that these breaches can be addressed and to deter repeated breaches. We anticipate that these arrangements will be determined through the development of the accreditation scheme that will be undertaken by suppliers.

3.43. However, there are strict codes in place that regulate all advertising in paid-for space. This includes TV, radio, press, posters, viral ads, pop-ups and banner ads and sponsored link searches. The Advertising Codes are written by the Committee of Advertising Practice (CAP) and the Broadcast Committee of Advertising Practice (BCAP) and are intended to ensure that marketing claims are legal, decent, honest and truthful and that they do not mislead consumers or reduce consumer confidence. The codes are endorsed and administered by the Advertising Standards Authority (ASA) and where a complaint is upheld the published adjudication is applicable across the sector as a whole. As such, it provides precedent on how marketing practices will be treated under the codes in future decisions. The Advertising Codes apply to all advertisers, regardless of any other codes of practice or accreditation schemes and help to ensure that suppliers make honest and credible claims about the features of their tariffs. However, the ASA has indicated that, where appropriate, it will seek to take into account the high level principles contained within our guidelines on green supply when investigating possible breaches of the Advertising Codes.

3.44. In addition, any misleading or dishonest claims that are made in marketing related to green tariffs may be caught by the provisions of the Consumer Protection Regulations (CPRs). Ofgem is a designated enforcer for the purposes of the CPRs and may take enforcement action where it is considered appropriate. Under the CPRs, there is a general prohibition concerning "unfair commercial practices". A commercial practice may be considered unfair where a party engages in a misleading action or omits important information which makes their claim misleading. A practise that can also be considered unfair is one which distorts or impairs a customer's ability to take a reasoned transactional decision. These provisions of the CPRs are therefore designed to ensure that consumers are given all the key information they need in order to make an informed decision regarding the purchase of a product or service and both of these conditions must be evident for the practise to be considered unfair.

4. Way Forward: The accreditation scheme

Chapter Summary

- This chapter provides an overview of the proposed way forward specifically in relation to the timeframes for suppliers signing up to the guidelines as well as the development and implementation of the independent accreditation scheme.

Questions

Question 1: For suppliers, do you accept the guidelines in principle?

Question 2: What form of accreditation scheme will it be possible to deliver by the end of 2008?

Question 3: Are there strong reasons to delay establishment of the accreditation scheme beyond the end of 2008? If there are, please explain why and what the benefits of delay would be.

Signing up to the guidelines

4.1. We are keen to get a clear indication from suppliers regarding their commitment to sign up to the guidelines at the end of this consultation process. Therefore, where suppliers are intending to sign up to the provisions of the guidelines, we request that they indicate this in their response. We recognise that this is an "in principle" decision, subject to how the detailed implementation of the accreditation scheme is developed. In the event that an insufficient number of suppliers sign up to the scheme to allow it to be effective we will need to consider alternative ways to provide information to help consumers make effective choices regarding green tariffs.

Development of the accreditation scheme

4.2. Throughout the consultation process, we have been clear that, to complement the high level principles outlined in the green supply guidelines, an associated independent accreditation scheme should be developed. We anticipate that this will provide consumers with clarity regarding the attributes of competing green tariffs as well as assurance that where they sign up to a green tariff, they will receive a tariff that is in line with claims made by the supplier. In addition, it will also allow them to be sure that where they take the decision to contract for a green tariff there will be an associated positive environmental impact.

4.3. We are keen that suppliers take the lead in developing the high level principles and minimum standards contained within the green supply guidelines into more detailed requirements that will be applied through the independent accreditation

scheme. In order to ensure that the scheme developed is in line with the high level principles and minimum standards contained within the guidelines, we intend to continue to support the development of the accreditation scheme. We recognise that there have been calls from various stakeholders for Ofgem to develop the more detailed provisions of the accreditation scheme but we consider that it would be more appropriate for suppliers to take forward this role as they have a clear understanding of what their consumers want and will also be responsible for the ultimate funding of the scheme.

4.4. In terms of the framework under which the accreditation scheme will operate, we think that it is important that a cost-effective solution is deployed to ensure that smaller suppliers are not excluded from the scheme and that increased costs are not faced by consumers as a result. However, we recognise that it will be important that any solution deployed is effective both in terms of providing assurance to consumers regarding the attributes of green tariffs and in effectively auditing the green tariffs themselves to ensure that they are compliant with the guidelines. Further consideration may be needed on the governance of the accreditation body, including such issues as independent representation on the board.

Timeframes going forward

4.5. As outlined above, we are requesting that suppliers indicate their decision in principle whether to accept these guidelines in their response to this consultation. The deadline for responses is 27 August 2008. Once the guidelines are in place, we expect suppliers, in consultation with stakeholders, to take forward development of the independent third party certification scheme. We are keen that, if possible, suppliers set up a scheme by the end of 2008 so that consumers can obtain clarity on the issue of green tariffs as expediently as possible.

Appendices

Index

Appendix	Name of Appendix	Page Number
1	The November consultation	26
2	The draft guidelines	32
3	Consultation Response and Questions	41
4	The Authority's Powers and Duties	43
5	Glossary	45
6	Feedback questionnaire	51

Appendix 1: The November consultation

Key proposals in the November consultation

1.1. The proposals contained within the second consultation document regarding the green supply guidelines, which was published in November 2007, focussed on the provision of transparency within the market for green tariffs and ensuring that where claims of green supply were being made, these were verifiable.

Status

1.2. In November, we stated that our preferred approach was for the guidelines to be voluntary and that companies would be asked to 'sign up' to the guidelines as this would enable us to monitor the effectiveness of the voluntary scheme. In signing up to the guidelines suppliers would also sign up to an independent certification scheme which would allow company claims regarding their renewable and low carbon tariffs to be independently assessed, consistent with the minimum requirements set out in the guidelines.

1.3. We considered that maintaining the voluntary status of the guidelines would facilitate their evolution over time and, in this respect, enable them to be more easily amended in response to market developments and supplier innovation. We also thought that under voluntary arrangements it would be easier for stakeholders to take ownership of the guidelines, allowing them to become self-regulatory over time.

Scope

1.4. A key element of our November proposals was to develop separate guidelines for renewable and low carbon tariffs that were intended to apply to both domestic and business customers. We considered that the environmental benefits achieved by all low carbon tariffs should be recognised in the guidelines and suppliers should be able to compete effectively on the relative carbon intensities of their tariffs. In addition, guidelines that reflect the environmental benefits of both low carbon and renewable generation would mirror the Government's 2020 commitments¹¹.

¹¹ The Energy White Paper set out targets to reduce carbon dioxide emissions by 60% in 2050 relative to 1990 levels with real progress by 2020. It also included the aspiration that, by 2020, 20 percent of the UK's electricity supply should be met by renewables. See: <http://www.dti.gov.uk/energy/sources/renewables/policy/government/white-paper/page14962.html>

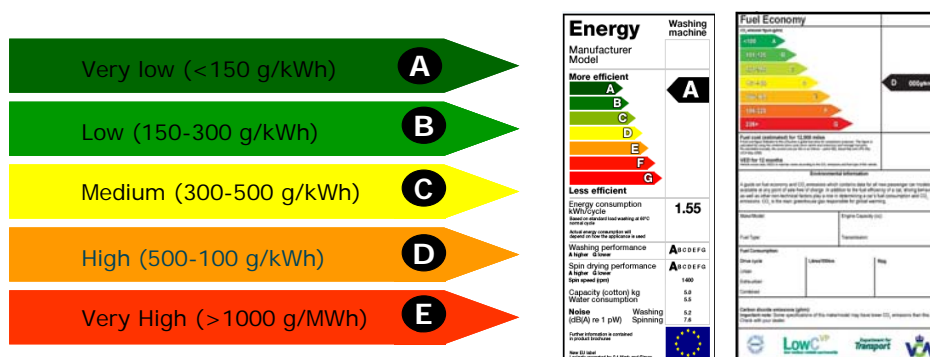
1.5. We were also of the view that extension of the guidelines to business customers would provide greater clarity to them regarding the potential environmental benefits associated with green tariffs and therefore provide them with greater confidence and choice when deciding whether to sign up to such tariffs.

Transparency

1.6. A key proposal that was intended to bring further transparency to the market for green tariffs was the proposed implementation of carbon intensity bandings for all tariffs offered by suppliers. Under this proposal, where suppliers wanted to market certain tariffs as green they would need to provide consumers with details of the carbon intensity of the section of their generation portfolio allocated to this tariff as well as providing information on the carbon intensity of the generation portfolio associated with all of the other tariffs that they offered. In essence, this would ensure that customers were aware that due to suppliers "slicing and dicing" their generation portfolio to allow them to offer green tariffs, there was a subsequent effect upon the carbon intensity of all other tariffs that they offered.

1.7. We anticipated that the carbon intensity bands would be modelled upon the existing energy efficiency and vehicle efficiency ratings and therefore would be presented in a similar format to that outlined in Figure A1.1 below:

Figure A1.1 Illustration of the presentation of carbon intensity bandings



1.8. In the illustration in Figure A1.1 the assumption was that the lower the carbon intensity band that the tariff achieved, the more environmentally friendly that tariff would be perceived. The rationale behind the provision of this information was that it would give consumers an indication of the carbon content, and hence environmental credentials of individual tariffs and where they had preferences toward lower carbon fuels they would seek to contract for a tariff that fell in a low carbon intensity band.

Evidence of supply

1.9. In November, we proposed that evidence of supply for both renewable and low carbon tariffs should follow the requirements relating to evidence of supply set out in the Fuel Mix Disclosure (FMD) obligation. This implied that renewable sourced

generation should be supported by a guarantee of origin, and other forms of generation should be supported by the relevant generator declaration.

1.10. We also stated that this should be complemented with the requirement that where suppliers have indicated the inclusion of particular renewable or low carbon technologies within the marketing of their tariff, suppliers must provide greater detail within the relevant categories to support their claims¹². We considered that the provision of information regarding the generation source of supply would allow customers to make a choice with respect to competing renewable and/or low carbon tariffs based on their preferences in this regard.

Additionality

1.11. In the November consultation we included five potential measures of additionality that could be incorporated within the green supply guidelines. These included:

- **ROC retirement:** Through the removal of ROCs from the market the price of the remaining ROCs will increase. In addition, as more suppliers will have to pay into the buy-out fund, due to the reduced stock of ROCs, suppliers that presented ROCs in compliance with the RO will receive greater redistributed benefits. It has been argued that this will create incentives to the deployment of new renewables but there are questions surrounding the effectiveness of this mechanism given the existence of supply side constraints, including difficulties associated with obtaining access to the transmission system and planning consents.
- **A centrally administered 'green' fund:** Under this approach, customers would be provided with the option of paying a given percentage of their electricity bill into a 'green' fund. The money raised would be put towards a given set of renewable or environmental projects selected by a board of trustees appointed to administer the fund. This process would be repeated on an annual basis and the money contributed would be put towards further projects. This could be seen as a positive measure of additionality but may have the effect of reducing innovation as the competition between funds would be removed. In addition, there was little clarity regarding the costs associated with the administration of such a scheme.
- **A decentralised green fund:** This would operate in a similar way to a centrally administered fund but would remove the need to have a board of trustees in place to govern the use of funds. Instead, decisions regarding the most appropriate projects in which to invest would be made by individual companies. A number of these funds are already offered by suppliers and therefore it would appear more appropriate to allow discretion to suppliers in terms of the range and type of funds that they invest in.

¹² As set out in paragraph 2.11 of the Guidelines for Fuel Mix Disclosure by suppliers in Great Britain, December 2005.

- **Improved transparency:** Under this option the focus was on ensuring that customers were able to better understand the range of available tariffs through increased transparency and quality of information provided by suppliers. Although the concept of additionality would effectively be absent from the guidelines, where suppliers were keen to demonstrate that they were engaged in activities that had an additional environmental benefit, they would be able to market this as an added extra in relation to the tariff.
- **The Hybrid option:** Under this option, suppliers would be able to develop tariffs across their portfolio as they wished, but would only be permitted to charge a premium where they were able to demonstrate that the tariff offered some additional environmental benefit over and above their legal obligations.

1.12. We recognised the various pros and cons associated with each of these measures and sought the views of stakeholders regarding our assessment as well as on their preferences with respect to additionality.

Responses to the November consultation

Status

1.13. The majority of respondents to the November consultation were in favour of an approach under which the guidelines would be voluntary and where suppliers would choose whether to “sign up” to compliance with both the guidelines and the accreditation scheme. In contrast, some of the customer groups and NGOs expressed the view that compliance with the guidelines should be a mandatory supplier requirement either immediately or if suppliers do not voluntarily sign up. A few respondents considered that the guidelines should be mandatory whereas the accreditation scheme should be voluntary.

Scope

1.14. Most of the respondents were supportive of the extension of the guidelines to non-domestic customers and thought the November draft of the guidelines was appropriate for application to these customers. However a few respondents considered that the guidelines would need to be redrafted to accommodate differences between domestic and non-domestic customers as non-domestics would require more detailed information.

1.15. There was a mixed response in terms of the proposals to implement separate guidelines for renewable and low carbon tariffs, although a slight majority were in favour of this proposal. One respondent said that renewable tariffs should be given the flexibility to be accredited as a low carbon tariff if the supplier wishes. Respondents who did not agree with the proposal considered that separate guidelines would add to the existing customer confusion.

Transparency

1.16. Responses to the November consultation highlighted that, in principle, the majority of suppliers were supportive of the intention to introduce carbon intensity bands for green tariffs. However, many did not think that it would be necessary to introduce bandings for each individual tariff (including standard electricity tariffs) and therefore had a preference for an approach under which they would be able to "slice and dice" their generation portfolio without providing consumers with an indication of the subsequent impact that this would have on the rest of the tariffs that they offer. In contrast, a number of the customer representatives, and NGOs were supportive of these proposals on the proviso that carbon intensity bands were provided for each individual tariff offered by suppliers to ensure full transparency for consumers.

1.17. One respondent stated that they did not support the rating of tariffs in any way but rather that effective labelling for green tariffs should be made available. Another respondent suggested that the provision of carbon intensity information could be misleading while a further pointed out that placing certain low carbon technologies, e.g. nuclear, in the same band as renewables may be confusing for customers.

Evidence of supply

1.18. The majority of respondents were in favour of linking evidence of supply to the FMD obligation however some respondents raised concerns in this area. Some of these respondents considered that the proposal to sub-divide renewable generation into particular technologies was unnecessary and would lead to further customer confusion while others stated that the FMD should not be used beyond its original intent.

Additionality

1.19. A number of respondents felt that additionality should form a central part of the guidelines. However, many expressed a preference for an approach to additionality which simply required suppliers to provide transparency regarding the additional activity in which they were engaging, with some also suggesting that incorporating additionality within green tariffs should be an optional extra. There was a strong reaction to the proposed hybrid option, particularly from suppliers who felt that this was tantamount to Ofgem seeking to reintroduce price controls. However, two consumer representatives were supportive of this approach and considered that it would add an extra layer of consumer protection.

1.20. A number of stakeholders expressed views regarding the proposed centralised and decentralised funds. While there was limited support for the centralised funds due to the possibility that these may restrict innovation and incur high admin costs, there was a feeling that if suppliers wanted to establish their own funds independently this should be permissible under the guidelines. There were mixed views on ROC retirement as a measure of additionality although the majority of

those that did respond were opposed to this as a meaningful way of demonstrating additional benefits for consumers.

The MORI Research

1.21. In January 2008 we received the results of the MORI research. Although this research only provided a flavour of consumer perceptions and experiences, it confirmed the high level of confusion surrounding 'green' tariffs even amongst customers signed up to such products. There is also significant scepticism regarding claims made by suppliers in relation to these tariffs, with customers feeling further misled that they are not aware of the environmental contributions they already make. As such, there was strong support for a scheme offering certification of these products. However, many of the customers surveyed were also clear that, where they signed up to a green tariff, they would have an expectation that their decision to support the tariff meant that they were getting some environmental benefit from doing so.

Appendix 2: The draft guidelines

Aims of the guidelines

1.1. The key aims of these guidelines are to provide clarity to customers on whether green tariffs are truly green. This in turn requires that where green tariffs are marketed by suppliers they must apply the following principles:

- **transparency:** tariffs need to be clear and consistent with public understanding and expectations as to what constitutes green supply. Customers should have easy access to specific information regarding the tariff as well as more general information regarding the way that the electricity market, supplier obligations and green tariffs interact. The requirements on transparency, under these guidelines, are discussed in further detail in Sections 1.5 to 1.12 below;
- **evidence of supply:** suppliers will need to have and retain evidence for the duration of the relevant compliance period to verify all claims regarding both the source of electricity supply and additionality in order that this can be made available to the public or an external verifier. The requirements on evidence of supply, under these guidelines, are discussed in further detail in Sections 1.13 to 1.15 below;
- **additionality:** customers choosing a green tariff need to be able to be satisfied that their support is contributing to additional environmental benefits. As such, they must be assured that the benefit secured through their decision to sign up to the tariff would not have accrued in the absence of this decision. A simple way to think about this is that the environmental benefit that is associated with the tariff must not already required as a result of a mandatory obligation placed on suppliers e.g. through the Renewables Obligation (RO) or under the Carbon Emissions Reduction Target (CERT). Ultimately the definition of additionality is “an activity that results in the delivery of an environmental benefit that would not occur under a Business As Usual Scenario”. We are keen that a minimum requirement in demonstrating additionality should be met by suppliers to achieve accreditation under the scheme and that any contributions above this minimum should be effectively rated to facilitate further consumer understanding. The requirements on additionality, under these guidelines, are discussed in further detail in Sections 1.16 to 1.22 below; and
- **certification:** suppliers will be required to develop a third party administered certification scheme and to sign up to the scheme when implemented, within given time periods. This scheme itself will require the employment of an independent certification scheme operator or the development of a clear standard against which suppliers external auditors will have responsibility for auditing supplier claims. The aim of the associated certification scheme will be to provide assurance to consumers that suppliers are actively engaging in the activities in which they claim they are partaking within their marketing materials. The presence of an independent third party at the centre of the scheme will facilitate the feeling of assurance achieved by consumers as well as ensuring that there is

not bias, towards any one supplier, within the scheme itself. The development of the scheme will be overseen by Ofgem to ensure that its structure adheres to the key principles outlined in these guidelines.

1.2. These draft guidelines place environmental benefit as a core principle. As a result of these guidelines, it must be clear to customers whether their tariff provides environmental benefits (additionality) or not. This is consistent with consumer expectations of what a green tariff should constitute¹³. It is also crucial that customers are able to understand clearly and easily what they are getting in terms of environmental benefits.

Status of the guidelines

1.3. These guidelines are voluntary in nature and given the high level nature of the principles contained within them, the green tariff products supported should be capable of evolving over time in line with the evolution of the market. However, where a signatory or other interested party considers that certain provisions within these guidelines need to be revised, they should notify Ofgem. Ofgem will subsequently consider whether a public consultation regarding this proposed amendment is required.

Scope of the guidelines

1.4. The guidelines apply to all tariffs for both domestic and non-domestic customers that are marketed as green tariffs by suppliers who are signatories to the guidelines. The same assessment and reporting can apply to tariffs which do not provide environmental benefits (additionality) provided that it is clear to consumers that there will not be any subsequent environmental benefits from their choice to sign up to the tariff. For example, on the information provided to consumers regarding the tariff, if it incorporates additionality it should achieve a bronze, silver or gold rating and if it does not this should clearly be stated.

Transparency

General requirements

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

¹³ This is consistent with the conclusions reached through Ofgem's consumer research, carried out in December 2007, which highlighted that the key motivation for consumers in signing up to green tariffs is to facilitate additional environmental benefits. The conclusions of the research are available at: <http://www.ofgem.gov.uk/Sustainability/Environmnt/Policy/Documents1/Final%20Report%20from%20Mo ri%20re%20Consumers'%20Views.pdf>

provided regarding the market more generally and the obligations with which suppliers must comply should also be up-to-date and accurate.

1.6. 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 where a supplier sources a substantial portion of its generation from wind. The exact detail of these arrangements will be agreed through the discussions that take place to establish an associated certification scheme.

Provision of information on a tiered basis

1.7. In recognition of the different needs of consumers regarding the provision of information, suppliers must provide information to consumers on a tiered basis. The first tier of information will outline some of the key information of which consumers should be aware in advance of signing up to a green tariff, the second tier of information will provide an explanation of these symbols and the third will provide general contextual information regarding green tariffs and the electricity market. The requirements for the provision of information under the first, second and third tiers are outlined in more detailed in paragraphs 1.8 to 1.12 below.

Tier 1 information

1.8. The supplier should include tier 1 information regarding green tariffs on its website, in all marketing material and at the point of sale. This information must include:

- A Fuel Mix Disclosure chart illustrating the overall fuel mix of the supplier which shows the specific technologies employed and the percentage of the fuel mix that they comprise. This will provide an indication to customers of the environmental credentials of the supplier. This requirement is in line with legal obligations on active suppliers to provide information to each customer that has received a bill or statement in the 12 month period commencing 1 October regarding the contribution of each energy source to the total amount of electricity purchased for supply by the licensee¹⁴.
- An additionality ranking to demonstrate the level of additionality demonstrated within the tariff. This could either be a gold, silver, bronze or no additionality ranking; and
- An additionality description which briefly outlines the environmental benefit that the supplier is contributing towards on behalf of the customer.

¹⁴ The requirement is contained at paragraph 4(a) Standard Supply Licence Condition 21

1.9. Where it is not possible to provide a pictorial representation of these attributes of the green tariff at the point of sale, consumers must be made aware of this information prior to entering into an agreement for a green tariff.

Tier 2 information

1.10. The second tier of information should be available from a publicly accessible resource, e.g. the supplier's website and must explain the symbols presented in the first tier. As such it should provide details of:

- the key messages that the fuel mix chart is seeking to convey;
- the technologies that are referenced in the fuel mix and the key attributes of these technologies;
- a link to the information that the supplier produces regarding their overall fuel mix;
- the ranking employed to rate environmental benefits (additionality) and the way that these rankings have been derived; and
- the environmental measure (type of additionality) that has been supported as a result of the purchase of this particular tariff, specifically what this will mean in practical terms.

Tier 3 information

1.11. The supplier should also provide a statement on its website and should ensure that customers are made aware of this information in any marketing material or correspondence relating to the tariff. This information must include the following:

- 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 supplier's CERT obligations;
- the Government's ongoing aim of the CERT is to encourage an increased amount of energy efficiency by domestic customers;

-
- the amount that the suppliers' average domestic / non-domestic (as appropriate) customer on a standard electricity tariff is already contributing towards the supplier's CERT 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.

1.12. The measures that will be applied, including possible sanctions, in the event that suppliers are not compliant with these requirements will be determined through the development of the associated accreditation scheme.

Evidence of supply

1.13. Suppliers will need to conform to the legal requirements relating to Fuel Mix Disclosure, as set out in Standard Supply Licence Condition 21 relating to the Fuel Mix Disclosure Regulations, when making any claims regarding their overall generation portfolio.

1.14. Evidence of supply should be retained for the suppliers overall fuel mix and this evidence should follow the requirements of paragraph 8 of the Electricity (Fuel Mix Disclosure) Regulations 2005. Where particular generation sources are specified, the supplier should provide this evidence by category of generation source.

1.15. Evidence must also be retained regarding the additionality measure(s) in which the supplier has engaged on behalf of its customers.

Additional benefits associated with the tariff: domestics

1.16. To obtain accreditation under the third party administered certification scheme suppliers must demonstrate that the relevant tariffs incorporate a certain minimum level of additionality. In demonstrating this, suppliers must first show that they are undertaking an activity that results in the delivery of an environmental benefit that would not occur under a Business As Usual Scenario, consistent with the definition of additionality under these guidelines. The supplier must then effectively be rated on this basis. This will involve demonstrating that the tariff which they wish to certify incorporates a certain minimum level of additionality and, where appropriate, demonstrating that there are additionality benefits over this minimum level to achieve an increased rating under the certification scheme.

Measures of additionality

1.17. The following list should be taken to include all of the measures of additionality that will automatically qualify for certification under these guidelines. These measures include:

-
- **Retirement of EU Allowances (EUAs) under the EU Emissions Trading Scheme (ETS):** Suppliers may choose to procure EUAs to demonstrate additionality where they consider that this will facilitate a greater level of carbon abatement by effectively reducing the overall cap under the EU ETS. If suppliers use the acquisition of EUAs to provide an indication of additional benefits, these EUAs should be deleted from the Register or held by other parties, such as third party accreditation bodies.
 - **Contribution toward carbon offset activities:** Any carbon offsets that are used by suppliers to demonstrate additionality must be in line with Defra's Quality Assurance Scheme for Carbon Offsetting. As such, where a supplier chooses to engage in a carbon offset activity it must specify to consumers that the scheme meets the requirements of Defra's Quality Assurance Scheme for carbon offsetting. The supplier must also provide details of the carbon offsetting activity in which it has engaged and indicate an estimation of the amount of CO₂ emissions that are being offset by the scheme.
 - **Contribution towards the installation of energy efficiency technologies:** This could be demonstrated for either domestic or non-domestic premises and the technologies in this instance should be in line with those deployed in conjunction with the CERT but absent the associated subsidy. As such, measures should qualify where action is taken that promotes a reduction in carbon emissions. To make an assessment that an action results in a reduction in carbon emissions, it must be clear that: the measure used by the supplier would result in a reduction in carbon emissions; The measure would lead to a reduction in carbon emissions which is additional to that required by minimum legal requirements; and the supplier's action is additional to that which would be achieved under the Business As Usual scenario.

Measures that qualify under the CERT and therefore by definition should qualify (in unsubsidised form) as additional under these guidelines, include:

- **Insulation:** This includes professionally installed loft insulation, DIY loft insulation and cavity wall insulation consistent with CERT requirements;
 - **Boilers:** this is limited to the replacement of D-rated boilers with A-or B-rated boilers;
 - **Promotion of energy efficient lighting;**
 - **Promotion of higher rated cooling appliances;** and
 - **Microgeneration:** UK Microgeneration Certification Scheme provides an independent assessment of installers of microgeneration systems and technologies to ensure that the appropriate standards of installation are met and maintained;
- **Contribution toward development of additional small scale renewable or low carbon generation:** This would demonstrate the deployment of additional renewable or low carbon generation and would be focussed toward technologies that require increased funding to ensure their eventual development. The

definition of small scale generation is set equivalent to new generation schemes that are smaller than 1MW and the term low carbon is taken to refer to small scale Carbon Capture and Storage (CCS), nuclear or Good Quality CHP developments.

The level of contribution will be based on expenditure made by the supplier and treated as a cost in the supplier's accounts. Investments that the supplier would expect to recoup (with a full commercial return) do not count as going beyond business as usual - so a clear separation will be required. The expenditure could be directed at commercial entities or community organisations. We envisage that costs incurred to manage the relationship with the developer and help the project get established would also be eligible.

- **Contribution toward the development of renewable heat installations:** This is an area that has seen less development to date and therefore projects to facilitate this can be seen as additional. This may change if new subsidies are introduced following the Government's current Renewable Energy Strategy consultation.

Similar issues arise as with small-scale renewables above.

- **Contribution toward research and development in evolving renewable technologies:** As a general principle the project must relate to the development of a renewable technology which is not currently financially feasible given the subsidies available under the RO/LECs. In addition, the expenditure would need to be accredited by the third party administered certification scheme.

In addition to these examples, it may also be possible for other activities to qualify as additional where they provide some benefit to the environment. Each case would need to be assessed on its merits by the third party accreditor.

Rating of additionality

1.18. For measures of additionality to qualify under the guidelines it is necessary that they are not only compliant with the requirements outlined above but that they also meet a minimum financial benchmark. It is also possible for measures of additionality to be rated on the basis of the financial contribution that they entail from the supplier. This will allow for a clear differentiation of the additionality contained within the various offerings that are available in terms of green tariffs. The minimum level of financial contribution and the thresholds for different ratings should be derived under the auspices of the accreditation scheme.

Additional benefits associated with the tariff – non-domestics

Measures of additionality

1.19. For non-domestic green tariffs to incorporate additionality, they must demonstrate that a volume of carbon abatement results from the customer's choice

to sign up to the tariff. To ensure consistency throughout the guidelines, the types of measures that will qualify as additional for non-domestic green tariffs are aligned with those measures of additionality that qualify for accreditation under domestic green tariffs, on the proviso that the measures that qualify for non-domestic tariffs must facilitate carbon abatement. As such, for non-domestic consumers measures of additionality include:

- retirement of EU allowances under the EU Emissions Trading Scheme (EU ETS);
- contribution to the development and deployment of on-site renewables;
- purchase of carbon offsets in line with Defra's Quality Assurance Scheme for Carbon Offsetting; and
- contribution to the installation of energy efficient technologies.

Rating of additionality

1.20. Subject to consultation responses, it may not be necessary to include ratings for non-domestic customers. Instead, non-domestic consumers will have full transparency regarding the percentage of their overall carbon emissions that they will be abating through contracting for the green tariff.

Assessment of whether benefits are additional

1.21. A degree of responsibility is required from suppliers in interpreting the additionality provisions and ensuring that something would not have happened under a "Business as Usual" scenario. Nonetheless, it is important that provisions are put in place to determine whether activities are considered additional. Some examples of these provisions include:

- Ensuring that suppliers have not previously made statements about their intention to engage in a project/activity which is then labelled as additional;
- Monitoring suppliers existing R&D budgets and ensuring that they do not simply remove this budget and set aside a similar sized budget for additionality within green tariffs; and
- Making sure that suppliers do not stop engaging in certain activities and then move towards substitute activities which are then labelled as additional.

1.22. This activity will be monitored as part of the independent accreditation scheme to ensure that suppliers that are signed up to the guidelines and associated accreditation scheme remain compliant.

Third party assessment of green tariffs

1.23. Implementation of these guidelines will require suppliers to develop a certification scheme for green tariffs and employ an independent certification body to operate the scheme.

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

Appendix 3: Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by 27 August 2008 and should be sent to:

- Sabreena Juneja
- European Strategy & Environment
- 9 Millbank
- London
- SW1P 3GE

- 0207 901 7344
- sabreena.juneja@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. Ofgem shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

CHAPTER: Three

Question 1: Do you think that the suggested information in tiers 2 and 3 is appropriate to ensure that consumers have access to the information they need?

Question 2: Are the examples of additionality that are suggested all correct? Should any alternative examples be included? Is the threshold of 1MW for small scale renewable/low carbon generation appropriate? If you think an alternative threshold would be more appropriate please explain why.

Question 3: Is the example related to the proposed bands (gold, silver, bronze, etc) appropriate? If you think an alternative way of setting a minimum standard and associated ratings would be better, please explain why and how it would work in practice.

Question 4: What are your views regarding the treatment of additionality for non-domestic customers, particularly with respect to the most appropriate way to rate these tariffs?

CHAPTER: Four

Question 1: For suppliers, do you accept the guidelines in principle?

Question 2: What form of accreditation scheme will it be possible to deliver by the end of 2008?

Question 3: Are there strong reasons to delay establishment of the accreditation scheme beyond the end of 2008? If there are, please explain why and what the benefits of delay would be.

Appendix 4: The Authority's Powers and Duties

1.1. Ofgem is the Office of Gas and Electricity Markets which supports the Gas and Electricity Markets Authority ("the Authority"), the regulator of the gas and electricity industries in Great Britain. This Appendix summarises the primary powers and duties of the Authority. It is not comprehensive and is not a substitute to reference to the relevant legal instruments (including, but not limited to, those referred to below).

1.2. The Authority's powers and duties are largely provided for in statute, principally the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Act 2004, as well as arising from directly effective European Community legislation. References to the Gas Act and the Electricity Act in this Appendix are to Part 1 of each of those Acts.¹⁵

1.3. Duties and functions relating to gas are set out in the Gas Act and those relating to electricity are set out in the Electricity Act. This Appendix must be read accordingly¹⁶.

1.4. The Authority's principal objective when carrying out certain of its functions under each of the Gas Act and the Electricity Act is to protect the interests of consumers, present and future, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the shipping, transportation or supply of gas conveyed through pipes, and the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors.

1.5. The Authority must when carrying out those functions have regard to:

- The need to secure that, so far as it is economical to meet them, all reasonable demands in Great Britain for gas conveyed through pipes are met;
- The need to secure that all reasonable demands for electricity are met;
- The need to secure that licence holders are able to finance the activities which are the subject of obligations on them¹⁷; and
- The interests of individuals who are disabled or chronically sick, of pensionable age, with low incomes, or residing in rural areas.¹⁸

¹⁵ entitled "Gas Supply" and "Electricity Supply" respectively.

¹⁶ However, in exercising a function under the Electricity Act the Authority may have regard to the interests of consumers in relation to gas conveyed through pipes and vice versa in the case of it exercising a function under the Gas Act.

¹⁷ under the Gas Act and the Utilities Act, in the case of Gas Act functions, or the Electricity Act, the Utilities Act and certain parts of the Energy Act in the case of Electricity Act functions.

¹⁸ The Authority may have regard to other descriptions of consumers.

1.6. Subject to the above, the Authority is required to carry out the functions referred to in the manner which it considers is best calculated to:

- Promote efficiency and economy on the part of those licensed¹⁹ under the relevant Act and the efficient use of gas conveyed through pipes and electricity conveyed by distribution systems or transmission systems;
- Protect the public from dangers arising from the conveyance of gas through pipes or the use of gas conveyed through pipes and from the generation, transmission, distribution or supply of electricity;
- Contribute to the achievement of sustainable development; and
- Secure a diverse and viable long-term energy supply.

1.7. In carrying out the functions referred to, the Authority must also have regard, to:

- The effect on the environment of activities connected with the conveyance of gas through pipes or with the generation, transmission, distribution or supply of electricity;
- The principles under which regulatory activities should be transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed and any other principles that appear to it to represent the best regulatory practice; and
- Certain statutory guidance on social and environmental matters issued by the Secretary of State.

1.8. The Authority has powers under the Competition Act to investigate suspected anti-competitive activity and take action for breaches of the prohibitions in the legislation in respect of the gas and electricity sectors in Great Britain and is a designated National Competition Authority under the EC Modernisation Regulation²⁰ and therefore part of the European Competition Network. The Authority also has concurrent powers with the Office of Fair Trading in respect of market investigation references to the Competition Commission.

¹⁹ or persons authorised by exemptions to carry on any activity.

²⁰ Council Regulation (EC) 1/2003

Appendix 5: Glossary

A

Additionality

Suppliers offering 'green' tariffs must be able to show that consumers choosing the tariff will be making a difference to the environment over and above a 'Business as Usual' scenario. Under a 'Business as Usual' scenario suppliers would be compliant with a number of mandatory initiatives including the Renewables Obligation (RO), the Carbon Emissions Reduction Target (CERT) and the EU Emissions Trading Scheme (EU ETS), amongst others. Additionality can be demonstrated where a tariff incorporates an activity that results in the delivery of an environmental benefit that would not occur under a 'Business as Usual' scenario.

Advertising Standards Authority (ASA)

The Advertising Standards Authority is the independent body set up by the advertising industry to police the rules laid down in the advertising codes.

C

Carbon Emissions Reduction Target (CERT)

The Carbon Emissions Reduction Target (CERT) 2008 – 2011 follows on from the Energy Efficiency Commitment (EEC) 2005 – 2008 and requires gas and electricity suppliers to achieve targets for the reduction in carbon emissions generated by the domestic sector. The CERT will contribute to the government's Climate Change Programme by cutting carbon emissions. Under the CERT activity equivalent to at least 40 per cent of the target must be targeted at certain low-income domestic consumers or those who are over 70 years old; hence the programme also contributes to the government's Fuel Poverty Strategy.

Carbon intensity

Refers, within this document, to carbon dioxide emissions at the point of generation per unit of electricity generated, measured in gCO₂/kWh. Carbon banding refers to the allocation of a particular supply tariff to a band which contains a specific carbon intensity range. This differs from some other definitions which include the lifetime emissions of a particular generating technology.

Certified Emissions Reductions (CERs)

A Certified Emission Reduction (CERs) is the technical term for the output of Clean Development Mechanism (CDM) projects, as defined by the Kyoto Protocol. The CDM, defined in Article 12 of the Protocol, allows a country with an emission-reduction commitment under the Kyoto Protocol to implement an emission-reduction project in developing countries. Such projects can earn saleable CER credits, each equivalent to one tonne of CO₂, which can be counted towards meeting Kyoto targets.

Climate Change Levy (CCL)

The CCL was introduced by Government in 2001 and is designed to promote energy efficiency and stimulate investment in new energy (electricity and gas) technologies. The levy is a tax on energy use in the non-domestic sector (industry, commerce, agriculture and public sector). It applies to gas, electricity, LPG and coal and is based on the primary energy content of the fuels, not the carbon content.

Consumer Protection Regulations (CPRs)

These regulations apply to the sale of goods or services to consumers via the internet, digital television, mail order, phone or fax. The key features of the regulations are that:

- you must give consumers clear information including details of the goods or services offered, delivery arrangements and payment, the supplier's details and the consumer's cancellation right before they buy (known as prior information);
- you must also provide this information in writing;
- the consumer has a cooling-off period of seven working days.

D

Defra's Carbon Reduction Commitment (CRC)

The CRC is a new mandatory emissions trading scheme which will begin in January 2010. The CRC will target energy use emissions primarily from large non-energy intensive organisations such as large retail organisations, offices, banks, universities, hospitals, large local authorities and central government departments. CRC is designed to drive energy efficiency and deliver carbon savings through introducing new financial incentives and environmental responsibility drivers.

Defra's Guidelines on Greenhouse Gas Conversion Factors for Company Reporting

The purpose of the greenhouse gas (GHG) conversion factors is to help businesses convert existing data sources i.e. utility bills, car mileage and fuel consumption, into CO₂ equivalent data. The data can then be incorporated into the business' GHG inventory, as in preparing a carbon report. The guidelines outline typical business activities and operations such as, emissions produced from energy use, industrial processes and transport, and provide equivalent CO₂ conversion factors.

Domestic customer

This term refers to all customers, excluding the Industrial and Commercial (I&C) sector and Small and Medium Enterprises (SMEs).

E**Energy Efficiency Commitment (EEC)**

The Energy Efficiency Commitment 2005 - 2008 (EEC 2) forms part of the Government's Climate Change Programme and Fuel Poverty Strategy. EEC 2 requires obligated electricity and gas suppliers to achieve targets for the improvement of energy efficiency in domestic properties in Great Britain. The overall target of 130 TWh was set by Defra. At least half of the target must be achieved within the Priority Group (households receiving certain income related benefits and tax credits) to ensure that this group receive a significant share of the benefits of EEC 2.

EU Emissions Trading Scheme (EU ETS)

The EU Emissions Trading Scheme (EU ETS) is a Europe wide scheme which aims to reduce emissions of carbon dioxide and combat the serious threat of climate change. EU ETS puts a price on carbon that businesses use and creates a market for carbon. It has been in place since 2005 and is the first scheme of its kind in the world.

F**Fuel Mix Disclosure**

The Electricity (Fuel Mix Disclosure) Regulations 2005 implement the requirements of Article 3(6) of Directive 2003/54/EC concerning common rules for the internal market in electricity. This Directive obliges Member States to ensure that each supplier is required to provide details to its customers on the mix of fuels used to produce the electricity it supplies together with certain other environmental information (which at a minimum must be the emissions of CO₂ (in grams of carbon dioxide per kilowatt hour) and the radioactive waste (in grams per kilowatt hour) resulting from the electricity produced).

For each disclosure period (1 April- 31 March each year from 31 March 2004), suppliers are required to provide fuel mix information to customers. The following categories of energy sources are to be used for the purposes of Fuel Mix Disclosure:

- coal
- natural gas;
- nuclear;
- renewable (which has the same definition as the European Renewables Directive and the REGOs); and
- other.

G

Generator declaration

A generator declaration can be used to verify the source of fuel under the Fuel Mix Disclosure obligations. A generator declaration" must include details regarding:

- (a) the name and location of the generating station;
- (b) the name of the licensee to which the information in the generator declaration relates;
- (c) the disclosure period to which the generator declaration relates;
- (d) the fuel used in the generating station, and when the generating station uses more than one fuel the proportion of each fuel used according to the calorific value of the fuel used;
- (e) the amount of electricity subject to the declaration, expressed in MWh;
- (f) a statement that the generator has not issued generator declarations or transferred guarantees of origin in relation to an amount of electricity that exceeds the total output of the generating station in the disclosure period; and
- (g) the signature of a director of the generation company or person of similar standing where the generation licensee is not a company to verify the facts referred to in sub-paragraphs (a) to (f).

Grid mix

The average mix of electricity available from the electricity grid.

L

Levy Exemption Certificates (LECs):

Exemptions from the CCL were introduced to encourage the use of less-polluting alternative energy sources. These include exemptions for supplies of electricity generated from new forms of renewable energy, for electricity generated from coal mine methane and energy for Good Quality combined heat and power (CHP) plants. LECs are evidence of CCL exempt electricity supply generated from qualifying sources and are redeemed by suppliers to HMRC to prove the amount of non-climate change energy that had been supplied to non-domestic customers in the given period.

M

MORI

Ipsos MORI, part of the Ipsos Group, is a leading multi-research company.

N**National Consumer Council (NCC)**

The NCC's mission is to help everyone get a better deal by making the consumer voice heard. In October 2008, NCC will merge with Postwatch and energywatch to form a new, enhanced consumer representation and advocacy body.

Non-domestic

The term non-domestic refers to the Industrial and Commercial (I&C) sector as well as Small and Medium Enterprises (SMEs). This definition differs from that used in the CCL which specifies that the non-domestic consumers are: Industry, commerce, agriculture, the public service, and other services.

R**Renewable Guarantee of Origin (REGO)**

Introduced in 2003, The Electricity (Guarantees of Origin of Electricity Produced from Renewable Energy Sources) Regulations 2003 were produced in response to the EU Renewables Directive. This regulation implemented a certificate system that allows producers of renewable-sourced electricity eligible under the EU Renewables Directive to be issued with evidence. One REGO is provided per KWh of electricity produced that is renewable by the producer to prove their electricity is renewable. The scheme provides generators a means of proving their 'green' credentials within EU Member States. The certificates have no actual monetary value themselves.

Renewable Energy Strategy (RES)

This consultation is being run by the Department for Business, Enterprise and Regulatory Reform and seeks views on how to drive up the use of renewable energy in the UK, as part of the overall strategy for tackling climate change and to meet the UK's share of the EU target to source 20% of the EU's energy from renewable sources by 2020.

Renewables Obligation (RO)

Introduced by the Government in 2002, the RO is the primary means to support the development of renewable technologies in Great Britain. It is a market based mechanism that requires electricity suppliers to source a percentage (increases every year) of their electricity sales from eligible renewable sources. In 2006/7 suppliers must source 6.7% of their supply from eligible renewables and this percentage will rise to 15.4% by 2015/6 and remain at that percentage until 2027. Companies can meet their obligation in one of three ways, which are: presenting Renewable Obligation Certificates (ROCs); paying a buy-out fund contribution equivalent to £33.24 MWh in 2006/07 and rising each year with RPI; or, through a combination of the two.

Renewable Obligation Certificates (ROCs)

Under the RO scheme, companies can prove that they are meeting their obligations by presenting ROCs. ROCs are issued to accredited renewable generators for each 1MWh of eligible electricity generated; generators can sell them to electricity supply companies.

S

Slicing and Dicing

Slicing and Dicing refers to the practise in which some suppliers engage in which they divide up their generation portfolio into separate component parts e.g. renewables and low carbon, to enable them to sell this energy to their consumers as part of a green tariff.

Small and Medium sized Enterprises (SMEs)

The definition of a small-medium sized enterprise is one with an annual fuel use of up to 8,800 thousand kWh for electricity and for gas

Appendix 6: Feedback Questionnaire

1.1. Ofgem considers that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about the manner in which this consultation has been conducted. In any case we would be keen to get your answers to the following questions:

1. Do you have any comments about the overall process, which was adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand, could it have been better written?
4. To what extent did the report's conclusions provide a balanced view?
5. To what extent did the report make reasoned recommendations for improvement?
6. Please add any further comments?

1.2. Please send your comments to:

Andrew MacFaul
Consultation Co-ordinator
Ofgem
9 Millbank
London
SW1P 3GE
andrew.macfaul@ofgem.gov.uk