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European Strategy & Environment
Ofgem
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Dear Sabreena,

The green supply guidelines: Updated proposals

BizzEnergy welcome the opportunity to provide comment on Ofgem's updated proposals for the Green Supply Guidelines. This response can be treated as non-confidential.

We are one of the largest independent electricity suppliers and supply electricity to the non-domestic market primarily the SME sector. We offer a range of products to our customers and this includes a green tariff option. We also have a domestic electricity supply licence and intend to enter the domestic market. Potentially, we may choose to offer a green tariff option alongside our other products. We have therefore responded to the consultation in respect to both the domestic and non-domestic market.

Chapter 3

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?

We agree with the general principle of providing the information in tiers. This allows suppliers to get a simple message across to consumers in the first instance supported by additional information in subsequent tiers.

Tier 1 – In the domestic market the at-a-glance information would be consistent with the approach taken in food-labelling or efficiency-labelling. Some customers will take comfort in that the product has been independently verified for them and a ranking system makes it very easy to compare products. The guidelines do represent a significant shift in principle with the emphasis on a contribution in pound note terms rather than the energy purchased to back the respective product. The Fuel Mix Disclosure chart would now appear to be of less relevance as this is not part of the green tariff offering, so arguably sign-posting may be more appropriate than mandating the display of this information at point of sale. We do however believe that consumers thinking of purchasing a green tariff would be interested to know what the company themselves providing the service are doing in terms of the environment. This may influence their buying decisions, so it would be helpful to require suppliers to perhaps provide a short statement on this area.

We do have some reservations as to whether it is appropriate to develop a rating system for non-domestic customers and this is covered in question 4.

Tier 2 – This would seem appropriate. We agree that the relevance of this information may reduce over time in the domestic market as customers become familiar with the symbols.

Tier 3 – We would be nervous in taking on an obligation to keep customers fully informed and up-to-date on on-going government policy. The maintenance of this information could be burdensome as government policy changes particularly for smaller suppliers and new entrants. Arguably, the government would be best-placed to provide this information to all the relevant consumers (not just those with an interest in green tariffs). Putting the obligation on suppliers with the threat of sanctions for non-compliance (however unintentional) does seem excessive. Instead, we would suggest that this information is provided by the government or Ofgem and suppliers are required to sign-post (e.g. provide a link to a relevant web page).

All customers provide financial support to the development of renewable technologies and promotion of carbon reduction. This is direct via the Renewable Obligation, LECs etc. or indirect via increased transmission costs and losses, BSUOS etc. Obviously, customers do not have a choice in this as suppliers need to recover their costs. However, information on the financial contribution made by the average UK domestic customer and non-domestic customer towards environmental issues could be considered as in the general public interest. If this is the case, then instead of each supplier doing their own calculation (and coming up with different numbers), it would be far more appropriate for this information to be provided by third party such as Ofgem, who are best placed to provide an independent and consistent figure.

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

We agree with the principle-based approach such that innovation is not stifled. We do still believe carbon-banding and REGOs as evidence of renewable generation would provide a financial pull on the market for renewable generation. Although the pull may not be significant compared to say the Renewable Obligation, we are not convinced that this mechanism would be less effective than some of the other mechanism such as for example ROC retirement.

We agree that smaller-scale renewable electricity projects, particularly those below 1 MW, may require support. However, we do not believe that it is appropriate to include them in the list. The green supply guidelines should not be used to promote a specific renewable technology above others. If this area of the market needs support, then another mechanism should be found.

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

We agree that rating system based on carbon abatement would appear to be preferable. We had previously supported the labelling of the carbon content of the energy purchased to back the green tariff set out in the November Consultation. Historically, it has proved difficult to come up with a consensus on a robust additionality rating. One solution would be improving transparency such that the customer can make an informed judgement based on their own values and preferences. This would still be our preferred approach.

We can see that for the proposed rating according to financial contribution has some merit in that it is simple to understand. Generally, customers with a strong interest in environmental issues and a developed understanding of the green tariff market will be keen to see transparency and will do their own research. However for others, a simple model for rating additionality together with assurance that the scheme has been independently accredited may well be attractive and make the secondary buying decision (green or standard tariff) very easy and straightforward. This method could work in the domestic sector.

However, we tend to think that with this model some transparency is lost. Also, we have some reservations as to whether it is appropriate to rate additionality according to input cost rather than outcome of the investment. Some suppliers may end up spending their money wisely others less so, thus in practice it is not always certain that a particular gold-star product is better environmentally than a silver or bronze. There will always be debate on how effective green tariffs are in addressing environmental issues. If there are anomalies or the rating system is not sufficiently robust (as perceived by the media, consumer groups etc.) then there is potential for significant damage to the industry's reputation. If there are genuine issues around confusion and mistrust to be addressed, then we need to be sure that the new proposals do not end up making things worse.

We would welcome further clarity on the rating example given in 3.2:

- If suppliers are to develop a scheme which would be subject to review, then it would be helpful to understand on what basis the figures (£40, £20 and £10) have been derived.
- It is not obvious that there are any circumstances in which the customer would see a green tariff with "no additionality". We had assumed from the rest of the guidelines that if there was no associated financial contribution, then the tariff would not be accredited as "green"?
- Is the financial contribution a figure per year and should it be paid as a lump sum or part of the unit rate?

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?

We accept that the principle of green tariffs "facilitating environmental benefits over and above those that arise under a Business as Usual scenario" should apply to both domestic and non-domestic markets. However, we are not convinced that the rating of additionality for non-domestic customers should be based upon the demonstration of a certain level of expenditure by suppliers as there are practical problems in applying this approach. Customers in the non-domestic have a diverse range of consumption levels and there is also a wide-range in terms of the amount spent on electricity as a proportion to the company's overall cost base.

The majority of the non-domestic market considers green tariffs as a way to demonstrate Corporate Social Responsibility and support a positive marketing message (quite different from a domestic customer). We have spoken to a few of our customers in this category about the changes in DEFRA reporting and we have also shown them the updated proposals from Ofgem. These customers are interested in promoting a marketing message with a focus on carbon abatement. There is also the need for these customers to consider the interaction with other legislation such as CCL and greenhouse gas reporting. We note that DEFRA will be consulting shortly on "how any broader environmental benefits, possible long term carbon benefits and any genuinely additional carbon benefits of green tariffs could be treated in the Defra voluntary reporting guidelines".

We therefore believe that, at this stage, the guidelines for non-domestic green tariffs should specify a minimum level of carbon abatement to demonstrate additionality. But the rating of additionality should wait until the DEFRA work has concluded and potentially after this a rating system could be developed along the lines of carbon abatement consistent with greenhouse gas reporting.

Chapter 4

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

We have a few reservations as outlined in this response, particularly in terms of whether the guidelines provide the appropriate level of transparency and are sufficiently robust. Also, the

general supporting principle of green tariffs appears to have moved away from promoting renewable energy and instead towards promoting energy efficiency. We would like to understand this more.

However, we believe that the market does need a set of voluntary green supply guidelines and as a supplier we are keen to work with Ofgem to achieve this. We are unable to provide a commitment until the guidelines are finalised and we have an idea of the cost to us (set-up of accreditation scheme etc.). But in principle, we hope to be in a position to accept the guidelines.

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

We have attended the meetings facilitated by the ERA to discuss an accreditation scheme. These were very preliminary meetings with various services providers long before the updated proposals, but an indication of time-scales was given by one or two parties. I think the suggestion was somewhere in the order of 7-9 months from the point at which the guidelines were finalised.

The delivery of a scheme by the end of 2008, leaves just over 3 months depending on when the final guidelines are issued. Delivery by this date would therefore seem completely unachievable. It would seem unlikely that a third party would agree to develop a scheme under timescales which they know they can't meet.

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.

See above. It is difficult to imagine that an appropriate scheme could be developed within a timescale of just over 3 months. We believe that there is strong support for a scheme from suppliers. But if a robust and cost-effective scheme is to be delivered at the end of this process, then the deadline for delivery needs to be realistic.

Trust that our comments are helpful. Should you wish to discuss further then please do not hesitate to contact me.

Yours sincerely,

Keith Munday
Commercial Director