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The green supply guidelines – Conoco Phillips response to Ofgem *Updated proposals*

ConocoPhillips is the owner of the UK's largest CHP plant, owning the 740MW Immingham CHP scheme. The capacity of this project is due to be increased by a further 400MW when stage 2 is commissioned later this year.

The company supports attempts to update green supply guidelines. However, in this context definitions of "green" also need to embrace low carbon generation, including CHP, and to provide consumers with choice. However after supporting through the CHP Association Ofgem's earlier proposals, we believe it has taken a fundamentally wrong position in this important issue that will have an enduring effect on the market for low carbon output. We strongly disagree with the starting assumptions and measures in the *Updated proposals*.

On this basis we must formally communicate our disagreement, and we are unable to offer views on the more detailed issues canvassed in the consultation document.

Framework must accommodate CHP

Low carbon generation sources such as nuclear, CHP and eventually Carbon Capture and Storage all have an important role to play in reducing carbon intensity. There is good reason to believe customer pull-through may play a valuable role in these areas, and supply from these sources could prove more economic than some of the greener alternatives, especially as more marginal renewables technologies come into play. It is clearly erroneous to marginalise anything that does not meet green additionality criteria as business as usual in a market which is seeking to both innovate and reduce carbon intensity.

Defra or Ofgem have presented no analysis to substantiate its position that consumer pull does not result in the deployment of renewables and other low carbon technologies.

Until the announcement by Secretary Benn that carbon reporting guidelines would be retrospectively updated, the market for green benefits had boomed. There clearly are problems with aspects of current practice with the latest Ofgem data showing a 70% increase in imported Levy Exemption Certificates (Lecs) in a year and half. The award of non-CHP Lec's was equivalent to 22TWh for the year ending November 2007. This is equivalent to more than 10% of the business power market. With Lec's available to non-UK producers, around a third of these Lec's were imported: Norway provides nearly as many of them as Scotland, for example. It is hard to construct an argument in support of incremental investment when renewable power is being imported from established assets in other countries, raising more questions of double-counting, and undermining the market for low carbon producers based in the UK. There is also anecdotal evidence of some large suppliers certificating green supply by reference to Rocs, Lec's and Regos separately for the same power output, which clearly needs to be addressed as again this undermines the value of the premium product offered by CHP and other low carbon producers.

Current proposals would damage business markets

Despite these and other apparent anomalies, it would be wrong to write-off all the arrangements that have developed to date. Further competition for green benefits should provide signals of the price consumers are willing to pay and hence provide improved investment signals, especially given the paucity of other support measures for CHP. Recent business market experience has shown some of the country's largest consumers are prepared to pay a premium for low carbon power, and this progress should not be allowed to dissipate.

Indeed removing the ability for a supplier to offer willing customers electricity that is guaranteed to be matched by low carbon generation could introduce undesirable market consequences. Business customers with "green" contracts will consider breaking from these as the benefits no longer outweigh the costs. This is now a very real risk, and it could have a disproportionate effect on the emerging market.

Arguments about consumers being misled should not be over-generalised. Larger business consumers have different motives and more sophisticated buying skills than smaller users. Any serious 'greenwash' claims should be addressed through the normal advertising standards channels. As long as information is clear and verifiable, customers should be able to make informed choices.

Given that Defra plans to consult on carbon reporting guidelines this autumn, we believe that the guidelines should focus on the domestic and the smallest of businesses until Ofgem is able to explain how the guidelines could work cohesively and comprehensively with Defra's policies.

Process has been unsatisfactory

The process followed to date has pulled in different directions. The u-turn evidenced by the latest updated proposals—as well as providing a text book example of regulatory risk—have been met by a pronounced lack of support from the electricity supply industry, the Energy Savings Trust and many large businesses. As a minimum Ofgem needs to consider their representations very carefully, especially as there has been limited (if any) research outside of the domestic markets on the issue of stated concern to Ofgem, consumer confusion.

Please let me know if I can provide any further comment.

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