

Sabreena Juneja
sabreena.juneja@ofgem.gov.uk

27 August 2008
Your Ref: 97/08

Dear Sabreena,

energywatch response to Ofgem's third consultation: 'The green supply guidelines: Updated proposals' 27 August 2008.

I. Summary

- Ofgem has an opportunity to develop a robust, mandatory set of green supply guidelines that will eliminate consumer confusion once and for all. It must seize this opportunity. This response echoes the views set out in our response to Ofgem's previous consultation in January 2008.
- energywatch welcomes Ofgem's decision to issue a single set of guidelines for all suppliers, covering low carbon and renewable and applying to domestic and non-domestic consumers. However, overall, the content of the proposed guidelines are contradictory, and likely to increase rather than decrease consumer confusion.
- The guidelines must have transparency as their centerpiece. All consumers have a right to accurate information regarding the carbon and renewable content of their electricity supply. This information must be derived from contractual evidence rather than physical delivery of electricity.
- Full and accurate disclosure of the fuel source for all tariffs will allow suppliers to differentiate themselves from their competitors in terms of the renewable-sourced electricity they supply. This legal requirement is seriously

undermined by Ofgem's proposals which will act as a barrier to entry for niche suppliers of renewable-sourced electricity.

- Full and accurate disclosure will also allow for renewable and low carbon electricity to be transparently valued and thus be subject to the effective forces of supply and demand. This will create the consumer 'pull' that will be essential if the UK is to meet its challenging EU target.
- Research shows that consumers are confused by additional environmental benefits not derived from their electricity supply. Most of the examples listed in Ofgem's consultation have serious double counting issues associated with them, and the carbon benefit from them is likely to be minimal.
- A system that assesses environmental benefit on the basis of input investment misrepresents the facts and will not provide an incentive for suppliers to achieve carbon emissions reductions. The proposed star rating is arbitrary, and based on an erroneous rationale.
- Any additional environmental benefits need to be very carefully assessed by an accreditation body that is completely independent of electricity suppliers. Ofgem must retain the power and the duty to enforce the guidelines rigorously and even-handedly.

- **2. Introduction**

1. energywatch's strategic goal is to protect and promote the interests of present and future energy consumers. Our mission is to be an independent consumer champion, dynamic in developing confident and assertive consumers and committed to improving the services provided to all gas and electricity consumers.

2. Because our remit is to protect the interests of all consumers, including future consumers, energywatch is particularly keen to ensure that sustainable solutions are identified to combat environmental problems, chiefly global warming. energywatch has been pleased to play a full part in the stakeholder events that have taken place as part of the consultation process and we welcome the opportunity to respond to Ofgem's third consultation entitled 'The green supply guidelines: Updated proposals'. We support Ofgem's aim to reduce confusion for consumers who wish to purchase 'low carbon', 'renewable' and 'green' electricity tariffs.

3. The UK will have a demanding target for renewable energy to meet by 2020. This is likely to mean a domestic target of over 30 per cent of renewable electricity - a large increase from the current level of around 5 per cent. Consumers, both domestic and business, have an important role to play in driving this investment in renewable energy so long as they have full and transparent information to enable them to do so.

4. There has been a huge growth in consumer consciousness about household carbon emissions. As a result consumers are becoming much more interested in the environmental impact of their daily lives. This also applies to companies – especially those with a direct consumer interface, such as large retailers – who make claims to their consumers regarding their own carbon emissions as part of their marketing strategies. The result is that there is a growing demand from consumers as well as from shareholders for goods and services supplied by companies that have a positive environmental profile. This increases the potential for companies to make false and misleading claims which must be very carefully guarded against.

5. energywatch would like to see an approach to regulating green supply that is consistent with the way Government regulates other parallel environmental issues. For example, Defra has appointed a body to administer its Code of Practice on carbon offsets totally independent of the industry. In our view there are many parallels between carbon offsets and green supply which centre on how to preclude double counting and assess additionality. Yet Defra and Ofgem have taken completely different approaches to regulating the two sectors. The result is inconsistent with a lighter regulatory burden placed on energy suppliers than of carbon offsets.

The proposals: general comments

6. energywatch recognises that there are some positive aspects of Ofgem's third set of proposals. However, overall, we consider that they are contradictory and likely to lead to increased rather than decreased consumer confusion. We continue to urge Ofgem to set out a set of robust, mandatory guidelines based on transparency which will eliminate this confusion in the market.

Contractual evidence

7. energywatch cannot accept that the central basis of the proposals should be physical delivery of electron rather than contractual evidence. This runs contrary to the entire electricity trading system on which green supply is based. It results in a very confusing outcome in which suppliers disclose their individual fuel mix (which is in any case a legal requirement under EU and UK law) but yet are forced to claim that they supply only the grid average irrespective of their actual purchasing patterns. In our view, this central contradiction undermines Ofgem's proposals and renders them unworkable.

8. energywatch agrees that very little electricity sourced from renewables is likely to be additional, over and above a business-as-usual scenario. This has always been our view. We therefore support Defra's decision that companies cannot use green supply as a basis for claiming carbon emission reductions. However, domestic consumers are not required to report to Defra on their GHG emissions for compliance purposes.

9. In our view suppliers must be obliged to inform consumers in an agreed manner that, by signing up to a green supply tariff, they are unlikely to be increasing the amount of renewable electricity generated in the immediate term. Suppliers must make this clear on all advertising and promotional materials, as well as in statements and reports sent with the bill. A clear understanding of this is essential if the debate is to move forward. Where there is objective evidence that additional renewable electricity has been generated as a result of the tariff, over and above business as usual, this information can be conveyed.

Fuel mix disclosure

10. Disclosing their fuel mix allows suppliers to differentiate their offerings on the basis of the percentage of their fuel mix accounted for by renewable electricity. It also allows them to compare themselves with other suppliers on the basis of their green credentials. This is especially important for small, niche suppliers whose identity is forged with purchasing only renewable-sourced electricity.

11. Within the business-as-usual scenario, energywatch favours a system where each supplier must disclose for each of its tariffs the percentage of the fuel mix accounted for by renewable electricity. An explanation of how this could work is contained in two papers in the Appendix. Suppliers have agreed that the methodology in the first one is practicable and pragmatic. It should be implemented as a matter of urgency while there is general agreement.

12. We know from the research that consumers value electricity from renewable sources. Consumers have a right to know how this scarce resource has been allocated. If the demand for renewable-sourced electricity exceeds supply, then suppliers can charge a premium for it so long as they apply the health warning outlined above. In this way, a demand for renewable-sourced electricity is created within a business-as-usual scenario. This will drive increased investment in renewable generation capacity in the medium-term.

Renewables Obligation

13. All consumers, both domestic and non-domestic, contribute in some way to the Renewables Obligation; however, it is not clear how suppliers pass the costs through, or to whom. In addition, each supplier spends a different amount to save each tonne of CO₂ emissions saved, depending on its strategy. Each supplier therefore passes through a different amount to its consumers who are not aware that they currently contribute on average around £10 a year to the RO. However this contribution does not entitle consumers to a specific amount of renewable-sourced electricity.

Consumer demand

14. In our view, it is important that consumers can choose whether they want renewable-sourced electricity, so long as this is clearly within the business-as-usual scenario. Ofgem's proposals would cut consumers off from having any understanding of or influence over the environmental consequences of their electricity supply. This creates a powerful disincentive to consumers to make changes to their electricity usage, since they can have very little influence over the grid mix. (Domestic consumer demand is equivalent to around 27% of the total.)

Additional environmental benefits

15. energywatch agrees that consumers expect to be making a difference to the environment by buying electricity sourced from renewables. It is therefore important that additional environmental benefits are objectively accredited and clearly communicated to consumers alongside the health warning described above.

16. energywatch regrets, however, that Ofgem's proposals concentrate almost exclusively on additional environmental benefits not related to the electricity supply element of a tariff. Market research clearly shows that consumers do not sign up to green tariffs in order to invest in alternative environmental projects or causes. Consumers can make these kinds of investments privately if they want to.

17. Ofgem is constructing a complex rationale to assess additional environmental benefits where none exists. Most of the examples provided in the consultation have serious double counting issues attached to them. In our view, therefore, a star-rating

system round such a questionable measure of environmental benefit will mislead consumers.

18. Further, we are astonished that Ofgem is proposing to measure environmental benefit by input investment rather than outcome. This is out of line with its deep-rooted commitment to provide an incentive for only efficient investment. A system that assesses environmental benefit on the basis of input investment will not provide an incentive for suppliers to seek innovative ways of reducing carbon emissions.

19. energywatch considers that the proposed star rating is arbitrary and confusing, having no objective significance for consumers. It is linked to consumers' gross contributions to various Government environmental programmes, without even taking account of the net balance of costs and benefits; Ofgem has always questioned the validity of these programmes.

20. We are surprised that Ofgem is proposing to devolve responsibility for administering the accreditation of the guidelines to suppliers. These are the companies that have created the current confusion, and previous experience with Future Energy does not bode well for this course of action. The scheme will lack credibility as a result and smaller suppliers risk being marginalised.

The proposals: detailed comments

Status of the guidelines

21. energywatch urges Ofgem to change the status of its proposed guidelines so that they comprise a single set of mandatory guidelines. Voluntary guidelines will prove very confusing since all suppliers will want to sign up to them. Consumers will not know whether they are comparing like with like unless they have the certainty that all suppliers are operating on a level playing field and competing with each other fairly.

Scope of the guidelines

22. We agree that the guidelines should apply to both domestic and non-domestic consumers. However, Ofgem needs to recognise that the markets for domestic and

non-domestic consumers are quite different, and the drivers for these consumers seeking 'green' electricity are not the same. For these reasons, Ofgem's proposals would not apply equally well to both markets. The proposals for non-domestic consumers need further attention and amendment if they are to work alongside the existing regulatory instruments.

23. energywatch has since 2005, when the first consultation on how to revise the 2002 guidelines was issued, urged Defra to work with Ofgem, BERR and CLG to ensure that a consistent approach to carbon management was developed across Government. We would therefore like to see Defra co-owning these guidelines and appointing the same body to administer them that is now administering the Code of Practice on carbon offsets so that a consistent, seamless approach exists.

24. We welcome the gist of Defra's recently-announced changes to its Greenhouse Gas Reporting rules. energywatch has always urged Government to ensure that, by signing up to a green supply tariff, companies could not claim additional carbon emissions reductions unless there is objective evidence to show this. However, we regret that Defra did not consult before making the change to its rules. This has resulted in some perverse elements in the rules. It has also created antipathy on the part of many industry participants.

25. Defra has said it will consult on bringing its rules into line with Ofgem's guidelines once these have been finalised. We would rather see both bodies working together to achieve an equitable outcome, rather than this policy-making model that involves lurching from one direction to the other to bring each party's rules into line with the other's.

26. We therefore urge Ofgem to allow suppliers to allocate their renewable-sourced electricity to those consumers that wants it. This will require a change to the ideology that underpins the proposals which relies on physical delivery of electrons instead of contractual evidence.

Content of the guidelines

Transparency

27. energywatch favours full transparency and disclosure for all consumers. We would like to see suppliers obliged to provide fuel mix information for each of their tariffs and for this information to be related back to their overall fuel mix and reconciled each year. We have set out in the Appendix a methodology for doing this originally developed by E.ON and supported by all suppliers at the start of the year.

28. We consider that Ofgem should display on its website all the supplier-level fuel mix information for the previous year, and demonstrate how, taken together, this equates to the overall UK fuel mix. This would present consumers with a full picture of the content of their electricity supply and how this relates to the overall electricity supply.¹ Ofgem must also enforce the Fuel Mix Disclosure rules rigorously - which it has not done to date.

Tier 1 and Tier 2 information

29. energywatch cannot accept the proposed star rating system as providing consumers with objective, reliable information about the environmental consequences of their electricity supply. In our view it is based on a misleading rationale. We think the proposal that suppliers display a Fuel Mix Disclosure chart alongside a star rating will be highly contradictory and confusing for consumers.

30. In our view, consumers must be made aware that, by signing up to a particular green supply tariff, it is very unlikely that they will gain any additional environmental benefit. In this way, consumers' expectations will be lowered, and there will be less room for them to be misled. The provision of this honest and truthful information to consumers must be strictly enforced with penalties for those who do not comply.

31. Where the accreditation body judges there to be additional environmental benefits, in our view their methodology for assessing them must be made

¹ We urge Ofgem and BERR to amend the Fuel Mix Disclosure guidelines so that that part of the electricity supply which is based on traded electricity, and which relies on the average UK fuel mix, should instead rely on the average UK fuel mix without renewable and nuclear included in it.

transparent and be in line with that already developed, for example by the UN for its Clean Development Mechanism. Any additional benefits must be intrinsically linked to the electricity supply. The way that suppliers communicate the information to consumers must be honest and truthful and all claims must be regulated.

Tier 3 information

32. energywatch supports the provision of full, transparent and accurate information to consumers. However, this must be objective. The proposals in this section do not appear objective to us. We are concerned that it is motivated by Ofgem's antithesis to Government environmental programmes rather than support for them.

33. It is essential that consumers understand the scale of the challenge contained in the Government's Climate Change Programme, and the subsequent EU renewables target. The role of the various environmental programmes in meeting this challenge must be explained. Within this the average costs and benefits of each programme must be carefully described, and all must be included.

34. The average costs and benefits of CERT must be very clearly described. Most households in the UK will have already benefited from EEC or CERT by more than they have contributed to the programmes. For example, this could be through subsidised appliances purchased at a high street retail outlet, it could be through subsidised cavity wall or loft insulation, through energy efficiency lighting or from many of the other measures that suppliers are encouraged to install in consumers' homes. For these reasons it is misleading to consumers, to represent CERT as a net cost to them when in fact it is a net benefit.

35. Information about the Renewables Obligation must also be very clearly described. As set out above, the average contribution of £10 per year for households, which is quite small in relation to average energy bills of over £1,000, represents a contribution to a measure to combat a diffuse, global problem that is climate change. It is not possible to say who will benefit from each tonne of carbon emissions avoided by the RO. It is only possible to say that; overall, there will be a benefit somewhere in the world.

Evidence of supply

36. This section is very confusing. We do not understand how suppliers can at the same time rely on Fuel Mix Disclosure as a basis for the claims it makes for the percentage of renewable electricity it supplies, and yet at the same time be restricted to the grid average. This is sowing enormous grounds for confusion in our view and risks seriously undermining EU rules on disclosure.

37. energywatch urges Ofgem to base the guidelines on full transparency and disclosure. The Fuel Mix Disclosure requirements should be the centerpiece of the guidelines, and they should be extended so that suppliers are obliged to provide the information for each of its tariffs. Suppliers are ready to do this, and have developed the methodology set out in the Appendix.

38. energywatch also insists that renewable LECs must be retired along with REGOs for all domestic tariffs. We do not accept that LECs are a tax avoidance tool, but contractual evidence of renewable supply. Retiring LECs and REGOs is already considered good practice among suppliers, and most do so in respect of their green supply tariffs. For non-domestic tariffs, REGOs must be retired to back any renewable LECs sold.

39. These two certificates must therefore go hand in hand as evidence of supply of all renewable-sourced electricity, accompanied by the official health warning described above informing consumers that by signing up to a particular tariff they are not necessarily increasing the amount that is generated in the immediate term.

Environmental benefits

40. energywatch has serious concerns about the examples in Ofgem's proposals of additional environmental benefit. All of them, it seems to us, have double-counting issues that mean that it is very unlikely that additional environmental benefits will accrue from them. Therefore providing consumers with the impression that they do is very misleading, particularly if there is a premium to pay.

Domestic consumers: examples of measures

41. The CERT programme does not have a list of measures that are permissible within it. Instead suppliers can install any measures so long as they can demonstrate that there have been CO₂ emission reductions as a result and these are set out in the BREDEM model. The programme is predicated on additionality over and above a business-as-usual scenario. The methodology is tried and tested and has worked well since 1994.

42. It follows therefore that, for any measures that do not qualify under CERT, suppliers are not able to show evidence of environmental benefits. If such evidence existed it is unlikely suppliers would not want to claiming the emissions reductions under CERT. It is therefore not clear which measures Ofgem has in mind in the first example it provides.

43. Similarly, the reason behaviour change measures are not generally permitted under CERT is that there is no hard evidence to show that the behaviour change is sustained and what the additional environmental benefits are. If the evidence existed, they measures would be permitted under CERT. Allowing unproven measures to be the basis for additional environmental benefit would be highly misleading for consumers.

44. In its Renewable Energy Strategy the Government is currently consulting on a mechanism to incentivise renewable heat. It is therefore possible that, for a short period of time, suppliers could invest in renewable heat projects that do not benefit from any other incentive programme. However, this would need to be very tightly defined, and would be likely to be a short term phenomenon lasting around two years.

45. Support for small-scale, community level renewable electricity projects again might in certain circumstances be possible. However, there would have to be a very clear methodology developed to show that a specific development could not have benefited under any other incentive programme. This would be very difficult since community developments are eligible for benefit under the Low Carbon Buildings

Programme, the Renewables Obligation and will shortly be covered by a feed-in tariff arrangement as well. This shows how great the risk of double counting is in claiming additional environmental benefit on this basis.

46. Retiring EUAs could be defined as additional environmental benefit, although the actual benefit achieved would depend on the tightness of the EU-ETS which in the past has not been effective owing to the over-allocation of allowances. It is possible that, as the scheme moves further towards auctioning, the environmental benefits will increase. Our greater worry is that the research shows that consumers do not sign up to a green supply tariff in order to fund the retirement of allowances from the EU carbon emission trading scheme. It will be difficult to explain clearly why they were funding this and what the objective environmental benefit was.

47. Similar arguments apply to carbon offsets. While energywatch wholeheartedly supports Defra's Code of Practice and the accreditation scheme linked to it, we do not believe that consumers sign up to a green supply tariff in order to offset their household carbon emissions. Firstly, they could do it themselves privately, and secondly they are deriving no benefits from being signed up to a tariff in terms of overall household carbon emissions. We therefore find it misleading. Particularly difficult is the fact that if these additional benefits are to be judged on input investment it is not clear how much the supplier is taking from the consumer in administration fees, for example. That is why it is essential that the judgment of benefit be made in terms of environmental outcomes.

48. We can accept that R&D into emerging technologies is a worthwhile aim for suppliers to support. However, there is a capital grant programme which covers a wide range of support, and so again it would be essential to show conclusively that any research could not have benefited from public finance under a business-as-usual scenario. This would be very difficult to do. It would also be very difficult to show what the objective environmental benefit might be as the research may be long-term and may not yield successful processes in the end.

49. energywatch has supported ROC retirement in the past as evidence of additional

environmental benefit. In principle we continue to do so, since this is clearly linked to the electricity supply, and we know that consumers sign up to a green supply tariff because they want to improve the environmental credentials of their electricity supply. We note legislation that is passing through Parliament to streamline the planning process for major infrastructure projects, and to ensure that renewable electricity can be connected to the grid.

50. Therefore some of the obstructions to installing new renewable capacity are being removed, which will improve the ability of consumers to influence the rate at which new capacity is installed. However we are also aware that BERR is introducing a 'headroom' policy designed to ensure that installed capacity never reaches the RO target. It is therefore impossible that any amount of new installed capacity will ever exceed the RO target which is generally taken as the limit of the business-as-usual scenario. Nonetheless, in principle, we continue to support ROC retirement as evidence of additionality.

51. We do not consider contribution to a green charity to be a measure of additional environmental benefit. Consumers may choose to donate to such a charity privately. If their supplier does so, on their behalf, they may not object, so long as the amount they are paying and the amount being invested is entirely transparent. However there should be no suggestion that this is providing additional environmental benefits for the consumer.

Domestic consumers: rating of additionality measures

52. energywatch does not support Ofgem's proposal to judge additional environmental benefits on the basis of input investment. If a measure cannot demonstrate an objective and measurable environmental outcome then it cannot be considered additional. That is a simple rule that has been followed by the UN, EU and Defra. Ofgem must follow it as well if consumers are not to be deceived. This will avoid having to set arbitrary levels of input investment on the basis of which to award 'stars' for greenness.

53. energywatch is very concerned by these proposals. The investment thresholds

under the proposed star rating system have been derived from average consumer contributions to various Government environmental programmes. We are concerned that Ofgem sees the costs of these programmes without at the same time seeing the benefits. Any information must be provided objectively, including information on the costs and benefits of the programmes designed to implement it.

54. energywatch considers that all assessments, whether for domestic or for non-domestic consumers, should be based on an objective measure of carbon emissions reduction. In our view, if there is no evidence there is no additionality.

Non-domestic consumers: definition of measures

55. While we endorse Ofgem's desire to make the guidelines equally applicable to domestic and non-domestic consumers, nonetheless it is important to recognise that the drivers for each are quite different. Even between different groups of non-domestic consumers there are very different drivers. This must influence the shape of the guidelines. In particular, non-domestic consumers are influenced by tax relief offered against the Climate Change Levy, while other consumer-facing companies seek to market themselves to their consumers as environmentally-friendly.

Non-domestic consumers: rating of additionality measures

56. Our comments on the retirement of EUAs for non-domestic consumers mirrors those set out above for domestic consumers. Of course a distinction would in any case have to be made between those companies who are part of the EU-ETS and those who are not. Our comments on the appropriateness of carbon offsets for non-domestic consumers are the same as those set out above for domestic consumers.

57. Defra's new Greenhouse Gas Reporting rules send a difficult message to companies who wish to invest in on-site renewables. Given that Ofgem's rationale for these guidelines is physical delivery of electrons rather than contractual evidence, this seems strange. It is definitely sending a mixed message to those companies who have already made the investment. These guidelines are unlikely to provide any compensation for those who would have liked to invest, but have now decided not

to because of the changed rules. However, if companies were allowed to count electricity consumed from on-site renewables against their demand, then it would not be appropriate to include it in these guidelines.

58. Finally, we cannot endorse the inclusion of a contribution to energy efficient technologies when these are a requirement of the Carbon Reduction Commitment (CRC) and Climate Change Agreements (CCAs) in any case. Defra is working on the establishment of a scheme that will cover those companies which are not part of the CRC, and so, even for these companies, this would only be a short-term solution

Enforcement of the guidelines

59. energywatch urges Ofgem to make the guidelines mandatory rather than voluntary. Even if the guidelines are voluntary, suppliers will not want to be seen not to comply with them. However, there could be more confusion if some of a supplier's tariffs are governed by the guidelines and some are not. We therefore think it would be much more straightforward and transparent for all suppliers to be signed up to the mandatory guidelines.

60. It is essential that Ofgem retains the power to enforce the guidelines and that it does so rigorously and fairly. It will not be practicable to leave it to an accreditation body that answers to suppliers to enforce the guidelines. Experience in the past with Future Energy showed conclusively that this model will not work. The scheme collapsed the first time one of the suppliers was sanctioned.

61. energywatch does not agree that the Advertising Standards Authority is a body capable of enforcing the green supply guidelines. In the period since the first guidelines were published in 2002 it has handed down inconsistent and variable rulings despite having first agreed to abide by the guidelines. It is dependent on the complaints it receives and cannot audit or inspect suppliers proactively.

Accreditation body

62. Ofgem must appoint an accreditation body that is totally independent of suppliers. Only this way will it have credibility. The self-financing accreditation body

must develop and implement a methodology for assessing the environmental impact of green supply tariffs. Past experience shows that leaving suppliers to set up their own arrangements will not result in a rigorous, consistent regime. Furthermore, smaller suppliers are likely to be squeezed out by the six larger suppliers who will dominate the scheme on account of their size.

Timeframe

63. energywatch urges Ofgem to rethink the content of its guidelines, and then to implement them in a step-by-step process. There is nothing to be gained from rushing now that the consultation process has already lasted over three years.

64. Ofgem should therefore set out a timetable for issuing the guidelines, and then for appointing an accreditation body to implement the guidelines. The body could set up the rules for domestic consumers first, followed by the rules for non-domestic consumers. Ofgem will also need to amend the supply licence to mandate suppliers to follow the guidelines. The accreditation body should aim to be operational by the start of the next financial year, i.e. 1 April 2009.

Specific questions posed by Ofgem:

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?

See paragraphs 21 – 35 above.

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?

See paragraphs 40 – 58 above.

Is the example related to the proposed bands (gold, silver, bronze &c.) 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.

See paragraphs 15 – 19 above.

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

See paragraphs 56 – 58 above.

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

See paragraphs 63 - 64 above.

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 paragraphs 63 – 64 above.

Should you wish to discuss this further then please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs

Appendix One:

An approach to individual fuel mix worked up and supported by suppliers.

EXAMPLE OF HOW RENEWABLE AND LOW CARBON PRODUCT FUEL MIX COULD WORK

1. 1st March 2008 Renewable and Low Carbon Guidelines introduced. This is Supplier A's Fuel Mix Disclosure at that time (for the period 01/04/06 to 31/03/07). Supplier A has no existing renewable or low carbon products.

Energy Source	%
Coal	36.0
Natural Gas	39.0
Nuclear	19.0
Renewables	4.7
Other	2.1

2. On 01/06/2008 Supplier A launches two new tariffs,
"Renewable tariff" - largely based upon Landfill gas and Biomass
"Low Carbon tariff" - largely based upon Nuclear
Information is provided on the suppliers website as follows,

WEBSITE INFORMATION

SUPPLIER A

Fuel Mix (01/04/06 to 31/03/07)

Energy Source	%
Coal	35.8
Natural Gas	38.8
Nuclear	18.6
Renewables	4.7
Other	2.1

PRODUCT FUEL MIXES

Fuel Mix (01/04/06 to 31/03/07)

Renewable Tariff

Energy Source	%
Coal	n/a ²
Natural Gas	n/a ²
Nuclear	n/a ²
Renewables - Landfill Gas	n/a ²
Renewables - Biomass	n/a ²
Renewables - Wind	n/a ²
Renewables - Hydro	n/a ²
Other	n/a ²

Low Carbon Tariff

Energy Source	%
Coal	n/a ²
Natural Gas	n/a ²
Nuclear	n/a ²
Renewables	n/a ²
Other	n/a ²

n/a² = not available as product launched outside the period

Other Tariffs

Carbon Rating - Band D

Energy Source	%
Coal	35.8
Natural Gas	38.8
Nuclear	18.6
Renewables	4.7
Other	2.1

Forecast Fuel Mix (to 31/03/09)

Renewable Tariff

Carbon Rating - Band A

Energy Source	%
Coal	0
Natural Gas	0
Nuclear	0
Renewables - Landfill Gas	30 to 80
Renewables - Biomass	30 to 80
Renewables - Wind	0 to 10
Renewables - Hydro	0 to 10
Other	0

Low Carbon Tariff

Carbon Rating - Band B

Energy Source	%
Coal	0
Natural Gas	0 to 10
Nuclear	90 to 100
Renewables	0
Other	0

3. On 1 October 2008 new Fuel Mix Disclosure in accordance with the FMD Regulations. Supplier amends his website as follows,

WEBSITE INFORMATION

SUPPLIER A

Fuel Mix (01/04/07 to 31/03/08)

Energy Source	%
Coal	37.0
Natural Gas	35.0
Nuclear	19.3
Renewables	6.0
Other	2.7

PRODUCT FUEL MIXES

Fuel Mix (01/04/07 to 31/03/08)

Renewable Tariff

Energy Source	%
Coal	n/a [±]
Natural Gas	n/a [±]
Nuclear	n/a [±]
Renewables - Landfill Gas	n/a [±]
Renewables - Biomass	n/a [±]
Renewables - Wind	n/a [±]
Renewables - Hydro	n/a [±]
Other	n/a [±]

Low Carbon Tariff

Energy Source	%
Coal	n/a [±]
Natural Gas	n/a [±]
Nuclear	n/a [±]
Renewables	n/a [±]
Other	n/a [±]

Forecast Fuel Mix (to 31/03/09)

Renewable Tariff

[Carbon Rating - Band A](#)

Energy Source	%
Coal	0
Natural Gas	0
Nuclear	0
Renewables - Landfill Gas	30 to 80
Renewables - Biomass	30 to 80
Renewables - Wind	0 to 10
Renewables - Hydro	0 to 10
Other	0

Low Carbon Tariff

[Carbon Rating - Band B](#)

Energy Source	%
Coal	0 to 10
Natural Gas	0 to 10
Nuclear	90 to 100
Renewables	0
Other	0

n/a[±] = not available as product launched outside the period

WEBSITE INFORMATION

SUPPLIER A

Fuel Mix (01/04/08 to 31/03/09)

Energy Source	%
Coal	35.4
Natural Gas	34.0
Nuclear	20.0
Renewables	7.8
Other	2.8

Appendix Two:

Further thoughts on green supply tariffs and fuel mix disclosure – a paper for energywatch.

Full disclosure is a pre-requisite for transparency and an essential element of consumer protection. In energywatch's view, the principle of full disclosure of the fuel source for all tariffs must be the cornerstone of the rules governing all electricity tariffs if consumer confidence is to be regained.

It is universally accepted that contractual agreements are used as a proxy to account for renewable and other sources of electricity. Using this method is not arbitrary, but establishes a practical methodology. If it were necessary to track the path of individual electrons it would be impossible for individual suppliers to claim the source of any of their supply with confidence, unless it was generated on site.

Fuel mix disclosure alone is not sufficient to prove additional environmental benefits. It is an essential first element since full information about the supply must be clearly understood before an accurate assessment of any additional benefits can be made. Fuel mix disclosure can then form the basis of an easy-to-understand rating system.

The case study for one supplier set out below shows that domestic consumers, who pay their share for the Renewables Obligation through their electricity charges, are subsidising industrial and commercial consumers who are as a result exempt from paying the Climate Change Levy (CCL). Domestic consumers are thus paying to exempt I&C consumers from the CCL. This information needs to be in the public domain. It is very likely that this is the case across the board.

Background

The requirement for fuel mix disclosure has existed in the EU since the Internal Market on Electricity Directive was implemented in 2005. Some of the background from the discussions around implementation is set out below.

Article 3.6 of Directive 2003/54/EC requires Member States to ensure that electricity suppliers specify in or with bills and in promotional materials made available to final customers, certain information regarding the contribution of each energy source to the overall fuel mix of the supplier over the preceding year.

DTI (now BERR) consulted on various ways of implementing this requirement. One was to 'do nothing' and another was to track every electron generated from generator to the end user. Both of these options were rejected in favour of a third option described as the 'minimalist' option. The relevant page on BERR's website, where this is set out, is:

[http://www.berr.gov.uk/energy/policy-strategy/consumer-policy/fuel-](http://www.berr.gov.uk/energy/policy-strategy/consumer-policy/fuel-mix/page21629.html)

Paragraph 6 of Article 3 of EU Directive 2003/54 requires Member States to:

'ensure that electricity suppliers specify in or with the bills and in promotional materials made available to final customers:

(a) the contribution of each energy source to the overall fuel mix of the supplier over the preceding year;

(b) at least the reference to existing reference sources [...] where information on the environmental impact, in terms of at least emissions of CO₂ and the radioactive waste resulting from the electricity produced by the overall fuel mix of the supplier over the preceding year is publicly available.

With respect to electricity obtained via an electricity exchange or imported from an undertaking situated outside the Community, aggregate figures provided by the exchange or the undertaking in question over the preceding year may be used.

Member States shall take the necessary steps to ensure that the information provided by suppliers to their customers pursuant to this Article is reliable.'

[mix/page21629.html](http://www.berr.gov.uk/energy/policy-strategy/consumer-policy/fuel-mix/page21629.html)

Under this 'minimalist' option, suppliers are permitted to use pre-existing data sources as evidence of supply. These include REGOs and generator declarations. Generation that cannot be assigned to categories by REGOs or generator declarations must be assigned according to the average residual mix as calculated and published by BERR, and published in Energy Trends. The latest fuel mix disclosure declarations can be found at the following web address:

<http://www.electricityinfo.org/suppliers.php>

REGOs

Renewable Energy Guarantees of Origin (REGOs) were established to comply with the Renewable Energy Directive 2001/77/EC. For the purposes of fuel mix disclosure they are used as the primary source of evidence for renewables. (To avoid double counting it is essential that renewable LECs are always backed by REGOs and that they are retired in respect of domestic consumers.) BERR justifies its preference for

Under a scheme where ROCs are used, it is not possible for a 100% 'green' supplier to declare itself as 100% green whereas under a scheme with REGOs this will be possible. Furthermore, it is important to separate the aims of the Renewable Obligation and those of the Fuel Mix Disclosure provision. Suppliers' contribution to renewable generation is already recognised by the ROC system itself, and the fuel mix disclosure provision in the directive is not intended to provide any further form of recognition. Nevertheless, suppliers are still free to state the size of their financial contribution to renewable generation through the purchase of ROCs in promotional material or on/with the bill.

the use of REGOs instead of ROCs as follows:

Generator declarations

Generator declarations are simple self-certification declarations assigning the output from generators to suppliers. These declarations are the required source of evidence to be used for non-renewable generation.

Guarantees of origin

Suppliers may include in their label any electricity sourced outside Great Britain that can be certified by guarantees of origin provided they can show contractual evidence that the relevant electricity was consumed or is to be consumed in GB. For supply that cannot be certified in this way, suppliers are obliged to use the residual mix as calculated by BERR (see above).

Average residual mix

BERR publishes Energy Trends annually. The latest version can be found at:

<http://www.berr.gov.uk/files/file45397.pdf>

ELECTRICITY SUPPLIED		
All generating companies		
Coal	142.68	129.00
Oil	4.27	3.26
Gas	138.25	161.72
Nuclear	69.24	57.25
Hydro (natural flow and net supply by pumped storage stations)	3.38	4.40
Other renewables	13.53	15.75
Other fuels	3.49	3.77
Net imports	7.52	5.21
Total all generating companies	382.36	380.38

Part of the relevant table is set out above, where the left column shows the amount of fuel supplied in TWh for 2006 and the right column shows the amount in TWh for 2007. In this way, the residual fuel mix of electricity supplied can be found. This is used as the basis for accounting for the portion of suppliers' supply that cannot be certified by means of REGOs or generator declarations.

(It is likely that, as a result, suppliers' fuel mix statements show an inflated figure for renewables and nuclear since these are represented in the residual fuel mix while they are likely to have been counted separately.)

Costs

BERR considered that the costs to suppliers of implementing this 'minimalist' approach were low because it relies on pre-existing data sources. The only costs incurred are the costs of compliance for suppliers and the regulator/system operator. The costs to suppliers are assumed to consist of collation, calculation of relevant factors and preparation of information for customers, auditing the information and preparation of a return to the regulator.

BERR questioned the real additional cost to suppliers of providing the information. Given that suppliers frequently revise bills, advertising and other marketing material and that the inclusion of additional information in such material at the time of revisions would be negligible. An estimated annual cost of around £1 million (based on 28.4 million customers) was used in the Impact Assessment at the time of implementation.

Benefits

BERR pointed out that, by disclosing the fuel mix, both current and potential consumers would be in a position to make a more informed choice when choosing an electricity supplier or generation source and it ‘may also encourage consumers to be more economical in their use of electricity’. For suppliers, ‘it provides them with an opportunity to differentiate their product from [that of] other suppliers’.

In addition, BERR stated that consumers may increase their demand for low carbon/renewable sources of energy that in turn may increase the scope, and therefore capacity, of investment in renewable energy and other low carbon technologies such as CHP. This in turn could lead to a greater level of security of supply since increased renewable investment and capacity reduces dependence on fossil fuels.

Fuel mix disclosure for individual tariffs and contracts

Suppliers have precise information as to the sources of electricity they supply. These include sources that they own themselves or electricity that they purchase, either directly from the generator or else through the traded market. The Fuel Mix Disclosure requires suppliers to declare the sources of the electricity they supply on an aggregated basis. Accepting that the results are a best guess rather than a precise science, it is perfectly reasonable to expect suppliers to declare the sources of electricity they supply on a disaggregated basis. The costs and benefits of doing this are likely to be in line with those set out above.

As part of this settlement process it is essential that any electricity sold to consumers as ‘renewable’ should be backed by the necessary REGOs and LECs (retired in the case of domestic supply), and that any claims made about the renewable content of an individual tariff or contract must be substantiated and audited. Some adjustment to the existing requirements would be sufficient to allow for this and these are set out below.

Additional environmental benefits

An independent accreditation body must have the role of assessing any additional environmental benefits associated with the tariff or contract in question. Fuel mix disclosure is an essential starting point for the assessment of additional environmental benefits. However it is important not to confuse transparency with additionality: they are not the same.

Suppliers pay the following sums when they purchase one MWh of renewable electricity, in addition to the wholesale cost of the electricity: £4.30 per LEC, £50 per ROC and 50p per REGO. It is clear from this that the value lies in the ROC. Therefore, if a supplier wishes to claim additional environmental benefit from renewable generation it must be able to demonstrate the basis for the claim.

In practice these are likely to involve retiring ROCs, investing in future generation that demonstrably could not have taken place anyhow, investing in education projects, alleviating fuel poverty or making a contribution to other environmental issues. The accreditation body must develop a credible, transparent methodology for assessing tariffs and contracts in terms of additional CO₂ saved.

Methodology for disaggregated fuel mix disclosure

Suppliers have information disaggregated by individual licence. They would firstly need to set out the fuel mix for their domestic and non-domestic customer groups. Secondly, they would need to indicate to which of its tariffs the renewable electricity was allocated together with the quantity of electricity from different sources supplied to each, for the preceding year. It is likely that, for domestic consumers, most of it will have been allocated to those on the 'green' tariff. In this case it would be sufficient to show the fuel mixes for the 'green' tariff and for the other domestic tariffs. For non-domestic consumers, the electricity from renewable sources is being sold to those seeking exemption from the Climate Change Levy. These consumers could be aggregated and the fuel mix shown for them and for the rest. (This is shown in more detail in the Annex below.)

Suppliers would then provide this information to the relevant consumers within the context of their overall supply, both on the company's website and in individual annual energy statements, and this would be audited. Consumers are entitled to expect the current year to be broadly similar to the previous year unless they have specifically been made aware of any likely changes. Should the annual statement differ from the basis on which the consumer signed up to the tariff or contract the supplier must provide an appropriate adjustment.

The carbon content of each tariff should also be declared, based on the fuel mix disclosure information. This could be banded according to, say, four bands A – D with A representing very low carbon and D representing carbon-intensive electricity supply.

Case study

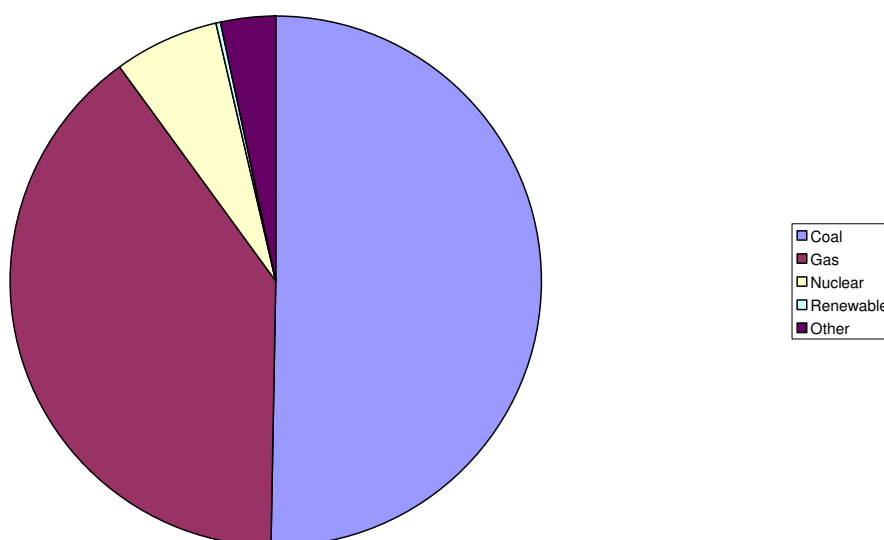
Figures provided by E.ON for the 2006/7 compliance period show that, overall; they supplied 3.6% renewable electricity across all consumers. This is broken down to show that they supplied domestic consumers 0.2% of their electricity as renewable while they supplied industrial and commercial consumers 9.8% of their electricity as renewable. The 0.2% was allocated to domestic consumers on the 'green' tariff while the 7% was allocated to companies wishing to be exempt from the Climate Change Levy. (E.ON always ensures that REGOs and LECs remain together to back any renewable electricity sold.)

Electricity source	Domestic (%)	I&C (%)	Total (%)	UK average (%)
Coal	50.2	26.6	42	35.8
Gas	39.9	30.9	36.7	38.8
Nuclear	6.3	29	14.2	18.6
Renewable	0.2	9.8	3.6	4.7
Other	3.4	3.7	3.5	2.1

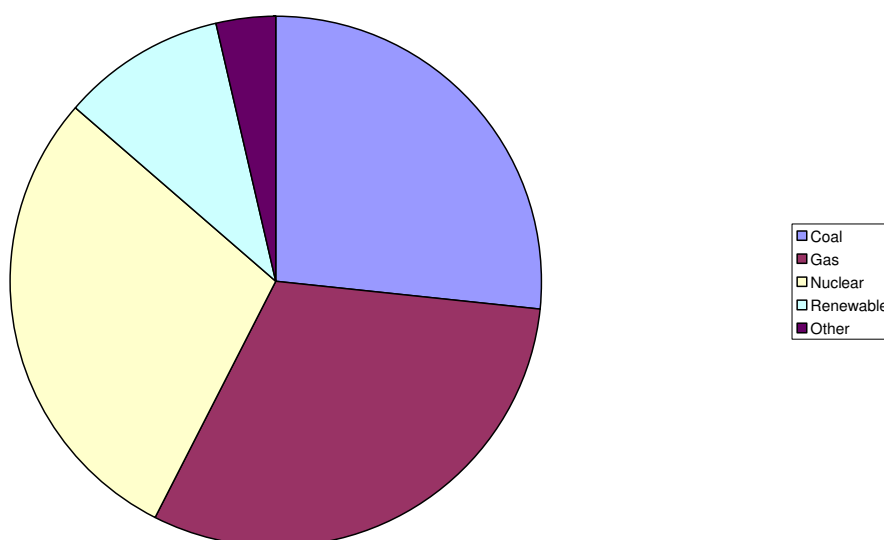
Total	100	100	100	100
-------	-----	-----	-----	-----

These figures show conclusively why fuel mix disclosure is meaningless unless it is broken down by domestic and non-domestic consumers. They also show how a CO2 assessment based on overall supply would be completely misleading for domestic consumers. These figures are shown graphically in the following pie charts:

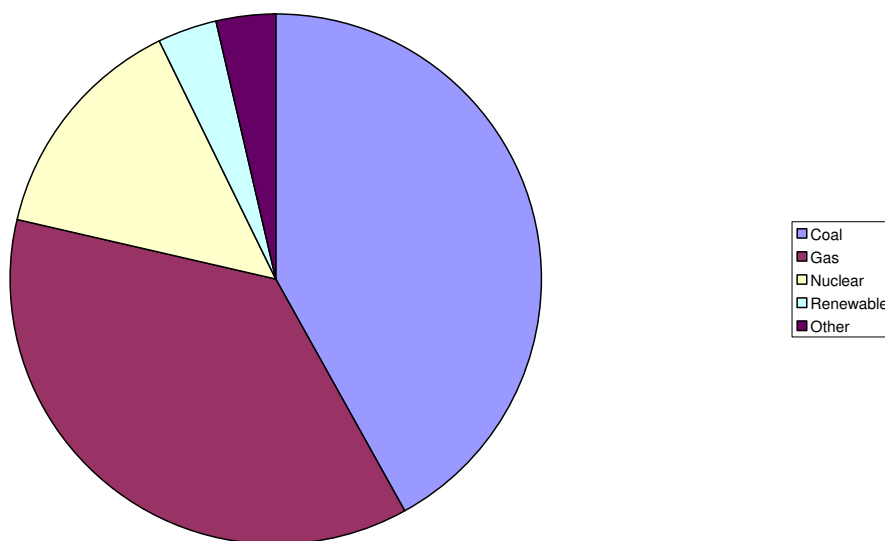
E.ON Fuel Mix for Domestic Consumers 2006/7



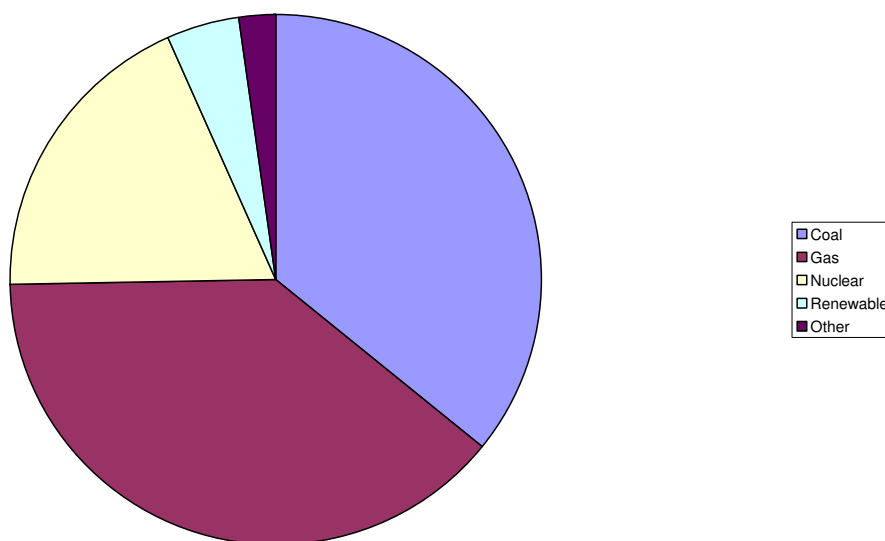
E.ON Fuel Mix for Non-domestic Consumers 2006/7



E.ON Fuel Mix for all Consumers 2006/7



UK average Fuel Mix 2006/7



E.ON's overall 207 fuel mix can be found at:

<http://www.eonenergy.com/In-Business/Corporate/Information-Centre/Fuel+Mix.htm>

http://www.electricityinfo.org/supplierdata.php?supplier_code=powel9&year=2007

The relevant page on energywatch's website can be found at:

http://www.energywatch.org.uk/help_and_advice/green_tariffs/available_tariffs/eon/index.asp

Fuel mix for domestic consumers:

E.ON fuel mixes for disclosure period 3 (01.04.2006 to 31.03.2007)

Powergen	Electricity Source		
	Powergen Fuel Mix %	E.ON UK Total	UK Average %
Coal	50.2	42.0	35.8
Gas	39.9	36.7	38.8
Nuclear	6.3	14.2	18.6
Renewable	0.2	3.6	4.7
Other	3.4	3.5	2.1
Total	100	100	100

Powergen	Environmental Information	
	Carbon Dioxide Emissions (g/kWh)	High Level Radioactive Waste (g/kWh)
Coal	447	0.000
Gas	147	0.000
Nuclear	0	0.001
Renewable	0	0.000
Other	20	0.000
Total	614	0.001

Appendix 5 Worked example

A5.1 To illustrate how the figures in a supplier's fuel mix table are derived a worked example is provided in this appendix. Step 1 shows a fictional supplier's data for a disclosure period. Step 2 shows how the residual fuel source data is combined with the evidenced fuel source data to reach the percentage of each energy source in the total supplied by the licensee in the disclosure period. Step 3 shows how the carbon dioxide emissions are calculated and step 4 shows a completed fuel mix disclosure table.

Step 1

Amount supplied

Total supplied as determined under renewables obligation orders: = 1000 MWh
of which embedded generation: = 100 MWh
Losses factor: = 1.09
Total purchased for supply = $(900 \times 1.09) + 100$ = 1081 MWh

Evidence held on 1 July

REGOs:		50	MWh
Generator declarations	Coal:	300	MWh
	Natural gas:	350	MWh
	Nuclear:	160	MWh
	Renewable:	10	MWh
	Other:	40	MWh

Residual

Residual $[1081 - (50 + 300 + 350 + 160 + 10 + 40)] = 171$ MWh

Step 2

In the table below the first column shows the fuel, the second column shows the amount of electricity supplied that has been evidenced through REGOs and generator declarations. The third column shows the residual amount of electricity (171 MWh) which is apportioned according to the percentages in the fuel mix disclosure data table published by DTI. For example, to calculate the residual amount for coal multiply 0.267 by 171 which equals 45.7. This is repeated for each fuel type. Column 4 is the sum of columns 2 and 3. Column 5 gives the percentages for column 4.

Fuel	MWh with evidence	Residual	Total	Percentage
Coal	300	45.7	345.7	32
Natural gas	350	62.2	412.2	38
Nuclear	160	50.6	210.6	19
Renewables	60	1.5	61.5	6
Other	40	11.0	51.0	5
Total	910	171	1081	100

Step 3

Step 3 uses the percentage figures from column 5 above to calculate carbon dioxide emissions for each fuel type and radioactive waste for nuclear power. The multiplication factor is taken from table 2 in the fuel mix disclosure data table.

Carbon dioxide calculations

Coal	0.32 x 910	=	291.2	g/kWh
Natural Gas	0.38 x 360	=	136.8	g/kWh
Nuclear	0.19 x 0	=	0	g/kWh
Renewables	0.06 x 0	=	0	g/kWh
Other	0.05 x 500	=	25	g/kWh

Total = 453.0 g/kWh

Radioactive waste calculations

0.19 x 0.012 = 0.00228 g/kWh

Step 4

Step 4 shows a complete fuel mix disclosure table using the figures calculated above.

Energy disclosure label (relates to electricity supplied in the period April 2006 to March 2006)		
Electricity supplied has been sourced from the following fuels:	% of total	
	Electricity supplied by Supplier	Average for UK (for comparison)
Coal	32%	33.4%
Natural gas	38%	39.3%
Nuclear	19%	20.6%
Renewable	6%	3.8%
Other	5%	2.9%
Total	100%	100%
Environmental Impact		
CO ₂ emissions	453 g per kWh	460 g per kWh
Radioactive waste	0.00228 g per kWh	0.00247 g per kWh
For more information on the environmental impact of your electricity supply visit www.xxxxx.xx.xx or call 0845 XXX XXX		

Step 5

Total electricity supplied – domestic

Total amount of electricity (MWh) supplied to domestic consumers under each tariff

Total electricity supplied – non-domestic

Total amount of electricity (MWh) supplied to non-domestic consumers under each tariff

Contracts supplied

Total of individual contracts with total amount of electricity (MWh) supplied

[These must add up to the figure for total electricity purchased for supply in Step 1]

Steps 6 and 7

Repeat Step 2 and Step 3 (above) for domestic and non-domestic supply, and for each tariff or group of tariffs where they are the same, and each group of contracts, listed in Step 5.

Step 8

Show the results in an Energy disclosure label that includes an additional column that specifies the individual tariff

Step 9

Show the results in the form of an agreed CO₂ content banding label, where one exists.