

18<sup>th</sup> August 2008

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Dear Hannah,

**The Green Supply Guidelines: Updated Proposals**  
**Consultation Response**

Thank you for the opportunity to respond to your proposals for the Green Supply Guidelines. This response can be treated as non-confidential.

Engage Consulting Limited is an energy consultancy with a strong record in the operation of electricity and gas supply markets and the successful delivery of industry projects. We have been heavily involved in the implementation of the Energy Supply Ombudsman scheme, having acted as independent project managers for the Energy Retail Association. The Energy Supply Ombudsman has many similarities in terms of size and scope with the proposed accreditation scheme and there are lessons to be learnt for the implementation of this scheme. Additionally, Engage has been in discussion with suppliers regarding the proposals which should be put in place for an accreditation scheme similar to that proposed in the document. Drawing on some of this experience, we would like to provide a view on the implementation of the accreditation scheme as described in Chapter 4 of the consultation.

Engage welcomes Ofgem's work in this area. We do not believe that it is for us to pass comment on the nature of any accreditation scheme, but we would like to add value to the consultation process by sharing our experience of what is required to introduce a scheme of this nature.

Risks to the robust delivery of a scheme remain in the latest proposals, particularly with the proposed timeframe for its introduction. The consultation paper outlines a timeframe of June to September to agree the guidelines and then from September to the end of December to implement the Accreditation Scheme on the basis of those guidelines, a period of around three months to get the scheme up and running from the time the requirements have been agreed. The paper indicates that it would be the responsibility of the suppliers to put the scheme in place. We believe that the current timeframe is too optimistic and might jeopardise the implementation process and decisions taken during this.

**Approach to the Introduction of the Scheme**

It is important to recognise the need to separate the implementation of the accreditation scheme from the ongoing operation as they have essentially differing success criteria.

The implementation requires the delivery of an appropriate service in line with a defined set of requirements, with the focus being on the timely delivery against an agreed budget. This is essentially a



project to deliver an accreditation scheme ready for operation. The project will deliver the scheme together with a framework for appropriate governance and ongoing funding. The implementation project will be overseen by those responsible for putting the scheme in place, in this case, the suppliers. The end of the implementation phase forms a distinct breakpoint where the service and its operating framework can be accepted and become operational.

The operational phase needs to ensure that the scheme continues to operate efficiently to agreed standards and is maintained in the light of any changes to regulatory requirements or experience gained as a result of operation. It will operate under the governance and funding that has been agreed in the implementation phase.

## **Implementation**

There are a number of activities involved in implementing a scheme such as this, specifically, the definition of the requirements necessary to implement the accreditation scheme; selection of the accreditation scheme service provider; the development of the accreditation scheme and the establishment of the operating framework for the accreditation scheme provider. These activities are described below in order to provide an understanding of the scale of the work that will need to be undertaken. This also provides the background to the implementation timeframe.

### **1. Requirements Definition**

A firm understanding of what is required from the accreditation scheme is vital if a suitable scheme is to be put in place. The requirements definition and the approach to implementing these requirements can be seen as a distinct phase on its own, being a precursor to the remainder of the implementation activities.

Everyone who will be part of the scheme must be prepared to accept the defined requirements and objectives and this is the time to gain that agreement. Going forward without a clear and agreed mandate will make the introduction of the accreditation scheme extremely difficult. Changes to the requirements during implementation would be costly and time consuming. If the intention is that all green tariffs offered by suppliers should be accredited, then all suppliers potentially offering these tariffs need to be in agreement. Allowing interested suppliers to provide feedback on the proposals through the present consultation process provides an opportunity to achieve this consensus, provided a suitable outcome can be agreed. The time taken to agree consensus in a multi-stakeholder environment should not be underestimated.

### **2. Accreditation Scheme Service Provider Selection**

The consultation mentioned that a suitable provider for the accreditation scheme needs to be selected. The accreditation scheme itself needs to be efficient and inexpensive given the (currently) relatively small number of customers for these green tariffs. There are several audit/accreditation providers operating in the energy industry but none is directly applicable to the likely requirements for the green tariffs accreditation scheme. This means that potential suppliers of the service will need time to consider the requirements and develop proposals for a suitable accreditation scheme so that the most appropriate option can be chosen.

It will be difficult to proceed with the selection process until the requirements of the green tariff accreditation scheme are specified in some detail as the scope of the accreditation will depend on the criteria for accreditation.

### 3. Scheme Development

Given that there is unlikely to be an 'off the shelf' service, the chosen provider will need time to develop their scheme internally to meet the defined requirements. It will also be very important to ensure that there is a testing phase for those developments, as well as any interfaces to external energy industry participants, particularly Suppliers. Obviously the cost and time for the development activities to be put in place will be considered as part of the selection process to ensure that the scheme can be in efficient operation as quickly as possible.

### 4. Operating Framework

An important part of the implementation of the accreditation service is the development of a framework within which the service provider will operate. This includes the governance structure and the funding arrangements. Both of these will need to be agreed between suppliers and possibly Ofgem. The service is likely to be funded through a combination of annual fees and accreditation charges on a per tariff basis. However the scale of the fees and charges will need to be agreed along with the mechanism for recovering development costs from suppliers who join the scheme after its introduction.

There will need to be some body to oversee the accreditation service, to ensure it maintains consistent standards and carries out its work efficiently and in a timely manner. It is also not clear whether Ofgem will have a role in setting criteria for the scheme in terms of its operation or whether it will be left to suppliers to manage it. There are existing models in the energy industry that can be considered (again, the Energy Supply Ombudsman is one example).

### 5. External Communications

In addition, there are other elements which will need to be undertaken during the overall implementation including marketing and communication of the scheme and the management of the various stakeholders. Both elements will be required to ensure that the final scheme is accepted by the 'customers' and those who have been keen to have a scheme in place.

## Summary and Conclusions

It is important that the implementation of the accreditation scheme is separated from its ongoing operation. It is also vital that the requirements for the scheme and how it will operate are defined at the start of implementation.

Based on the experience gained through the implementation of the Energy Supply Ombudsman all these activities will take rather longer than the 3 months allocated. The Energy Supply Ombudsman was introduced over a period of approximately 6 months and that was generally considered to be a challenging timescale. That was done against a background of already having a firm requirement on which all of the participants were agreed and having a service provider aligned with existing operations and supporting systems of the same nature.

The starting point for the green tariff accreditation scheme is far less advanced than that for the Energy Supply Ombudsman was at the start of the implementation project. There are currently no firm agreed requirements and it is not obvious that all affected suppliers agree to the current proposals. The implementation of the scheme requires the goodwill of suppliers to provide help with the implementation process. However any diversity of opinion and entrenched opposing views will make agreement of the arrangements for governance and funding difficult to achieve.

In addition to this, there is no operational body ready to operate this scheme in the same way that Otelo was as an existing Ombudsman service. The tendering and selection of a new service provider must follow the definition of the service, as highlighted in the comments in Section 2 above, and this will take time.

Overall, it would seem that it is unlikely to be possible to introduce an accreditation scheme in the timescale proposed based on the guidelines in the consultation. More time should be set aside to allow the successful delivery of an operationally robust accreditation scheme.

An alternative approach would be to introduce a minimum simple scheme that could be agreed on by all suppliers of green tariffs. Such a short-term scheme could be introduced quickly and could form the basis from which to build a more comprehensive scheme over time. If this approach were to have the backing of suppliers it could provide a low risk start to Green Certification.

Yours sincerely,

Don Ellson

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Engage Consulting Limited

