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By email only

Wednesday, 27 August 2008

Dear Sabreena,

The green supply guidelines: Update proposals

We welcome the opportunity to comment on the latest consultation on green supply guidelines.

We are disappointed that Ofgem has not built on the substantial progress made in developing the November consultation document, "Cutting the green customer confusion – next steps". We supported the product fuel mix labelling proposals set out in that document and in our response we proposed a model for making it work. We continue to believe that transparency and verification of claims would provide customers with confidence to purchase green products leading to a vibrant and diverse market place.

We are of the view that renewable supply products is one way in which customers show their interest in renewable energy and provide a demand pull for further investment. The ongoing status of renewable supply contracts under the latest proposals is unclear. The latest guidelines permit no star products but do not indicate what form they could take.

At the current time we do not believe it is appropriate to proceed with the non-domestic guidelines. The key requirement for most business customers is that they can be confident of the role green energy products play in reporting carbon emissions. It seems premature for Ofgem to produce guidelines prior to the proposed DEFRA consultation on how any broader environmental benefits of green products could be treated in the voluntary reporting guidelines.

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We are not convinced of the customer benefits of Ofgem's proposal to extend the scope of the Fuel Mix Disclosure regulations. Our own research shows that customers are totally indifferent to the information we provide on energy sources.

The timescale set out in the consultation for the development of the verification scheme is unrealistic. It is clear from industry group discussions with potential verifiers and scheme owners that a robust scheme will take between 9 and 12 months to produce.

The development of the robust scheme envisaged by Ofgem will be costly particularly where additionality is measured against *business as usual* activity. In current market conditions customer interest in green products will be limited and the costs of the verification scheme likely to be disproportionate to the number of green product sales. It is therefore our belief that the development of the scheme should be funded by Ofgem (or other government agency) and the operating costs of the scheme paid for by users of its services.

The development of the latest guidelines has required considerable commitment from all parties. If they can be agreed it is important that there is a period of at least three years where there are no further alterations. An exception would be to permit new forms of additionality. Such a moratorium will allow suppliers to invest in products confident that they will not need to make changes beyond those driven by normal market developments.

As stated above we are disappointed that Ofgem has not built on the previous product fuel labelling proposals. However, we recognise that some customers will appreciate visible identification of products which meet a set of "green" guidelines. In light of this, providing the guidelines,

- explicitly allow renewable supply products,
 - do not extend the scope of the Fuel Mix Disclosure regulations,
 - do not require us to disclose our costs of meeting the RO and/or CERT,
- and

we can reach agreement on the costs of developing the verification scheme we are likely to sign up to them.

Pending the finalisation of the guidelines and the completion of the verification scheme we will continue to market our existing "green" products making clear the environmental benefits which arise from them.



I attach our detailed responses to the questions posed in the consultation document and would be happy to discuss these with you.

Yours sincerely

A handwritten signature in black ink, consisting of several loops and a final horizontal stroke.

Steve Russell
Regulatory Affairs Manager



THE GREEN SUPPLY GUIDELINES: UPDATED PROPOSALS RESPONSE BY E.ON UK PLC

Chapter 3 The guidelines: proposed approach

1. *Do you think that the suggested information in tiers 2 & 3 is appropriate to ensure that consumers have access to the information they need?*

Tier 2 is appropriate information as it provides further detail on the products sold by the supplier. A customer could reasonably expect to find that information on the supplier's website.

Tier 3 information relates to the regulations impacting suppliers and their intended effect it would be most efficient for this to be on single source of the information and that would logically be the Ofgem's website. Information relating to an individual supplier's costs of meeting the RO and CERT is competitive information and suppliers should not be forced to disclose it.

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?*

The examples provided for domestic additionality are appropriate but we would suggest that they are extended to include energy efficiency technologies or measures (beyond those approved for CERT) where a supplier can provide independent evidence of their carbon reduction. This will allow suppliers to launch innovative products and gain "first mover" advantage. It will be for the supplier to judge (or explore in advance with the verifier) if the evidence will meet the requirements of the scheme. Obviously if the verifier subsequently judged the products did not meet the required environmental standards the supplier would be at risk of sanctions under the scheme.

We have some concerns regarding evidencing R&D beyond "business as usual" and its impact on compliance costs but feel that these

concerns can be addressed through the charging structure of the verification scheme.

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

As per our response to the November consultation our preference is that customers should be able to choose what additionality, if any they want from a product. Some customers will have a view of their preference for additionality e.g. products with energy efficiency, and will compare products based upon this preference. For these customers the ranking system is irrelevant and could in fact confuse as the suppliers financial contribution determines the banding rather than the energy reduction effectiveness of the product. In such circumstances a customer driven by a desire to save money could erroneously choose the gold star product over the silver star product because it looks like a better product.





Probably the majority of customers will appreciate a simple banding scheme so we are prepared to support its inclusion in the guidelines. In an ideal world banding should be based upon carbon abatement but we recognise that this will limit customer choice on the forms of additionality which could be included within the guidelines.

A scheme based upon the financial contribution is simple and relatively easily verifiable providing it is based on the customer not his consumption. If it is based on actual energy usage it would make verification more complex and more costly whilst having no direct link to carbon reduction (as the different forms of additionality will deliver different amounts of carbon abatement) and with no obvious additional customer benefit. It could also mean that some products could move bands during their life cycle e.g. if the form of additionality offered was a fixed price item (real time energy monitoring device) and the average consumption of customers on the product proved to be greater than average.

A gold, silver, bronze and no stars scheme offers an easily understandable form of product differentiation. Whilst we

understand the theoretical approach Ofgem's has taken in setting the financial thresholds for each star in reality there will be range of different forms additionality within each bands.

We would therefore propose a simple

Star rating	Contribution to additional environment benefit
 no star	Less than £10/customer
 bronze star	£10 to £19.99/customer
 silver star	£20 to £29.99/customer
 gold star	£30 or more/customer, or 100% offset*

** if a supplier can 100% offset (using DEFRA standard offsets) an average customers carbon emissions for less than the gold star price threshold it receives a gold star (it would be nonsensical for a supplier to have do more offsetting than was necessary for a customers usage).*

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

Many business customers purchase "green" tariffs for environmental reporting purposes. To avoid further business customer confusion on the treatment of "green" tariffs in environmental reporting we believe that the non-domestic elements of the "green" guidelines should not be progressed until DEFRA have carried out their proposed consultation on this issue.

Chapter 4 Way Forward: The accreditation scheme

1. *For suppliers, do you accept the guidelines in principle?*

As we have stated we have a number of reservations about the current draft of the guidelines and the linked verification scheme. We will only sign up to the guidelines if they,

- explicitly allow renewable supply products,
- do not extend the scope of the Fuel Mix Disclosure regulations,
- do not require us to disclose our costs of meeting the RO and/or CERT, and

we can reach agreement on the costs of developing the verification scheme.

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

The industry group has had several discussions with potential providers of verification services. From those discussions it is evident that it will take 9 to 12 months to produce a robust independent verification scheme based upon straightforward guidelines. The only accreditation scheme which it may possible to produce before the end of 2008 is one based upon self-regulation e.g. for a transitional period suppliers self declare compliance under the guidelines and the rating of their products.

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

The reasons to delay are;

- to allow the development of a robust independent verification agreed by all the relevant stakeholders
- to allow DEFRA to conduct their consultation on additionality in non-domestic green products for green house gas reporting purposes. This would allow us to assess the potential take up of business products under scheme, its value to us and consequently the costs we may be prepared to commit to its development.