Good Energy

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Dear Sabreena,

The Green Supply Guidelines: Updated Proposals

Thank you for the opportunity to respond to your latest proposals on the green supply guidelines. As you are aware, Good Energy are dedicated to supplying customers with energy from renewable sources and campaign tirelessly to move the UK to a low carbon economy.

We have long supported the principle of having both guidelines and an accreditation scheme for the market to protect customers from "Greenwash". We commissioned the independent analysis by the Environmental Change Institute in May 2006, and have raised the issue several times with Ofgem since the first guidelines were published in 2002. However, we believe these current proposals are misguided, unworkable and likely to increase customer confusion rather than reduce it.

For your ease we have structured our response to correspond with the structure of your document. We have answered your specific questions, and identified the relevant paragraphs where we have issues on which you have not asked a specific question.

2.4 In this paragraph you state that customers would become mistrustful if they discovered that their green tariff did not lead to any change in the overall generation mix or any environmental benefit. Whilst this may be true, at that point in time, over time, the demand for renewable energy will lead to generators investing in it to meet the demand. This is true of any product. For example, a customer who buys an organic apple, does not cause an extra organic apple to be produced, or one less non-organic apple to be produced. It does however, operate market forces to encourage suppliers to grow more organic apples and less non-organic ones- Micro-economics in action! The issue for the apples is it takes several years to increase the possible availability of organic apples – this is similar to renewable generation and although the effects are not immediate, they are undeniably to drive supply up in the longer term.

In addition you state that they were already paying for renewable generation anyway. This is not true. We are not clear how you reach this conclusion, but if you are referring to the RO, then that does not "buy" renewable generation. It is a methodology to support renewable technologies, either by allowing the sale of ROCs to a supplier, who use them to settle a financial obligation in lieu of the buyout price.

2.6 We do not disagree that there are supply side constraints which hinder the development of renewable generation, but they do not stop it, they just make it more difficult than it needs to be. Many of the issues mentioned are being addressed such as planning. As for grid access, this can be laid at the door of Ofgem itself by its inaction in this area.

The government is seeking to increase the supply side of renewables, as set out in its Renewable Energy Strategy. However, the proposal set out here to discourage suppliers offering renewable energy in favour of additionality, (and effectively settling their RO with cash) means that there will be less demand. Surely this is not what the government wants. The government, as any economist will understand, needs to increase both supply & demand.

2.7 We agree that the guidelines should, where possible, be compatible with Defra's guidelines. We believe Defra's current view is wrong, and this will become apparent when they receive responses to their proposed consultation.

2.8(b) Good Energy has been supplying customers with 100% renewable energy for nearly 9 years. In that time, none of our customers have had a problem with differentiating between what comes into their properties being related to their nearest generation source, and what Good Energy contracts for with renewable generators. If you follow the logic of your argument, then Good Energy should be billing those properties nearest their generation sources, rather than the customers with whom it has contracts to supply.

Your view that it is inconsistent with the energy efficiency message is also incorrect. Good Energy customers are some of the most energy efficient customers around. Indeed, our average Profile 1 customer consumption is 12% lower than the national average (Source: EAC analysis by Elexon June 2008). This is because they believe in reducing their consumption, even though it is 100% renewable.

A green Tariff Analogy

This analogy is fundamentally flawed. The principle reason is that it equates yogurt eating for personal betterment, with renewable tariff consumption which is about benefit to the environment (or the yogurt eating community to use the analogy.) We have included in appendix 1, a revised analogy based on the yogurt concept to make our point.

2.9 As mentioned above, the Renewable Obligation is a financial mechanism to support certain renewable technologies. Some renewable generation is not eligible for ROCs. Good Energy provides 100% renewable energy so the charge of “repackaging” our obligation is false. It should also be noted, that the obligation is on the supplier, and as such the financing of such is decided by the supplier. A supplier may choose to pay the buyout price from its profit, or from another part of its business, rather than included it in the customers cost. It may also decide to vary this cost differently between different tariffs. So the claim that all customers are already paying is not substantiated.

2.10 As stated above, you are assuming that a supplier charges a non-green tariff customer their share of the RO, this is not true. Suppliers may weigh the RO disproportionately to its green tariff customers, or pay the RO from profit via other income streams. You also state that you do not expect that suppliers will be able to provide any truly ”additional” renewable generation in the near future. This is wrong, and Good Energy has, and will continue to encourage additional renewable generation to supply its growing customer base.

2.11 We do not disagree with the view that more needs to be done, but see no reason why, in a free market, suppliers cannot market a renewable product at a price they believe the market will pay with no additionality, as long as this is clearly explained.

Chapter 3 Questions

Question 1:

We agree with the principle tier 1 information. That it should include the Suppliers fuel mix as set out in the EU directive and SLC 21 which Ofgem is supposed to enforce. We support the idea of ranking, but not the form set out here. We also support the one line description of the environmental benefits.

We agree with the tier 2 information proposed, although we believe the full SLC21 information should be in tier 1.

With regard to tier 3, we are happy in principle, but if the wording is going to be standardised, then we would have to withhold agreement until this information was provided. For example, we believe Suppliers pay the RO, and it does not follow logically that suppliers subsequently recharge all customers an equal share of that.

Question 2:

No. We believe that contributions to environmental charities should be excluded, as they have no direct relation with reducing carbon. We are also uneasy with the concept of offsetting being included, even Defra quality ones, as this does nothing to reduce the carbon pollution of the UK energy industry.

We welcome the support for small scale community based renewable energy projects, but believe further research would be needed to decide if the 1MW barrier is correct. We also welcome the principle of support for renewable heat schemes, but these should be limited to individual/community based schemes.

On the question of ROC retirement, we find it difficult to understand why this is excluded, when retirement of EU Emission trading allowances is included. Given that some suppliers (by virtue of being vertically integrated suppliers) receive free allowances, this is perverse. Of the two, retirement of EU allowances should be excluded before ROC retirement.

Question 3:

We are fundamentally opposed to the ranking by £ spent. We believe this is misleading to customers, and is wide open to abuse. Customers expect any ranking to be based on the quality of the environmental benefit, not the cash spent. We also believe the "above and beyond" business as usual will be impossible to police. This will quickly bring the scheme into disrepute and is one of the main reasons Good Energy will not be party to the guidelines as set out.

We appreciate the difficulty of ranking additionality, many of the measures are not quantifiable and subjective. However, we believe the industry, given time could come up with a solution. We therefore urge that ranking of additionality be considered a phase two development, and in the meantime the principle of having "green" claims verified and substantiated as set out in the November consultation be taken forward as an interim measure. Let the customers decide. Our experience is that they are far more astute than Ofgem and others given credit for.

Question 4:

We believe that all "Green" tariffs should be party to any guidelines as many smaller businesses need the same support as domestic customers. However, larger I&C customers who tend not to be on tariffs, but bespoke contracts could be excluded. However, care would need to be taken not to allow I&C contracts which are termed green based on LEC exemptions for example.

We also, to a certain extent, disagree with Ofgem's understanding of the I&C market demands. True additional environmental 'addtionalities' are well within the operational reach of many businesses (that currently choose a 'green' tariff for renewable energy) and can be achieved independently of an electricity supplier. Tariffs offering 'prescribed' additional benefits are likely to have limited power to influence the tariff selection of businesses. With the removal of the renewable or 'green' element from the guidelines – price will consistently be the overriding factor.

3.2 As previously stated, we are very supportive of the principle of having guidelines. We just believe these proposals are not the way forward, and inferior to Ofgem's November proposals. If sufficient Suppliers do sign up to the proposals, then reverting to the November proposals should be considered as an option.

3.6 We support the principle of achieving transparency. However one should not confuse complexity with opaqueness. Customers are capable of understanding complex information, especially if a standard format is used. There is no need to dumb down to star rating system based on a misleading measurement like £ spent on additionality.

3.7 We are supportive of the proposal to tier the information, provided the information is correct and verified as proposed.

3.17 Good Energy remains ambivalent on the question of LECs, but one of the principles of the whole process was to avoid double counting, and we would like to hear what Ofgem's position would be of a supplier offering an "environmental" (as opposed to calling it Green) business tariffs based on LECs only and how this is matched with the Customs and Excise guidelines on LECs.

3.19 The definition of "Business as Usual" is impossible to tie down. For Good Energy, everything we do is about fighting climate change, so everything we do is "business as usual". For this to work, Ofgem would need to come up with a more transparent, quantifiable and verifiable definition.

3.28 As previously stated, we do not support the £ spent measurement of additionality. To use an analogy. Everyone is aware that nature reserves hold benefits for the environment. Sometimes, it may be difficult to determine which of two separate reserves has the best environmental benefits. However, the answer cannot be determined by deciding which has the most money spent on it!

3.34 Good Energy believes that to properly judge additionality, a range of measures will be required, of which £ spent could be part but not the whole.. The key is to have any quantifiable measurement independently verified. The customer should see the range of measurements the supplier has used on their additionality, and make a judgement. We believe that once customers have faith in the measurements, they will be able to make judgements based on the information without a starring system. However, if we are wrong, then the industry can use the experience gain to develop one at a later date.

<u>Chapter 4 Questions</u>

Question 1:

No. As they presently stand we do not accept these guidelines and will not be participating in them. We do remain committed however to the principle of having guidelines provided they are helpful to both customers and the creating a low carbon economy. As these guidelines currently stand we believe they are detrimental to both.

Question 2:

We believe the timescales mentioned are ambitious, and cannot be delivered by the end of 2008. However, if the question of ranking of additionality was removed we believe a 1st phase accreditation scheme could be put in place in the timescales set out.

Question 3:

Defra is to consult on its proposals regarding its guidelines on GHG conversion factors for company reporting. We believe that the outcome of this consultation, may be significantly different from the views set out by Ofgem in this document. It may therefore be worthwhile delaying any scheme until Defra has set out its proposals following from its own consultation.

As a champion for many years for both the need for guidelines and an accreditation scheme, we are extremely disappointed with these proposals, and are sorry that we will not be a part of them. We fundamentally believe these proposals are bad for customers and detrimental to our mission to move to a low carbon economy – and that by implementing them OFGEM will not be doing anything to solve the issue of Climate Change.

I hope you find this response useful, and can develop a more acceptable alternative which we could support.

Yours sincerely,

Chris Welby

Chris Welby
Commercial Director

Appendix

If Good Energy made Yogurts.......

Good Energy cares about the health of the Yogurt eating fraternity (In Green Tariff Speak – The environment).

We do not promise to provide our customers with 100% fat-free Yogurt. We promise for every pot of Good Energy Yogurt purchased, we will put into the mix an equivalent 100% fat free yogurt. The more people switch to Good Energy yogurt, the greater the proportion of fat –free yogurt the whole yogurt eating fraternity receives, and the less full fat yogurt. We believe this is to the benefit to the whole of the yogurt eating community.

A lot of our competitors put in full fat yogurt, and pay the yogurt buy-out fund as an alternative to meeting the 25% fat free requirement, but there is a shortage of fat-free yogurt, so that is understandable.

OFYOG, the Yogurt regulator has declared that putting fat free yogurt in the mix is a con, and wants us to market our yogurt as average but can claim the health benefits of the fruit flavours we use. The more expensive the fruit flavour, the healthier the product they say. Put in an expensive fruit flavour and we can put the OFYOG gold star on our packs.

Good Energy and the other yogurt suppliers will therefore stop putting expensive fat free yogurt into the mix, and use full fat. We will all pay into the Yogurt buy-out fund instead to compensate, and put money into fruit flavours.

Clearly, many of the producers of fat-free yogurts will go out of business, and the average yogurt eater will find his yogurt has more fat in it, but hey, it will be tastier and has got a gold star, so must be healthier...mustn't it?!