Green Energy UK response to Ofgem- green supply guidelines: Updated proposals

Background

We welcome any attempt to clear up confusion over green tariffs.

We are particularly keen to see an independent verification scheme that would stop suppliers repackaging their statutory obligations as green and instead allowed suppliers to set out their proposition within a set framework which measured the overall reduction of carbon emissions from the generation used to supply their customers.

green energy uk plc are a white label supplier; we only supply green electricity and have no fossil fuel tariffs within our business.

We have always supplied more renewable electricity than our Renewables Obligation target and as a relative newcomer to the market (2001) find it hard to be penalised for 'business as usual'. To put our green credentials into context 98% of our electricity comes from green generators that weren't in existence when we started the company in 2001.

We equally welcome the call for more transparency to consumers. We strive to act in an honest and open way with our customers. We offer all our customers the chance to become shareholders without cost, allowing them a say in the way we run the business. The fuel mix for our individual tariffs is shown on our web site and distributed to our customer shareholders through our shareholder newsletter.

We have identified that our customer-shareholders are particularly interested in learning about where the energy they buy comes from and we highlight individual generators in our newsletter, on our web site and via our press releases.

However, these proposals deal with the creative use of statutory obligations being portrayed as green. In the process they deny independent and niche businesses the ability to market and supply 100% green and renewable electricity.

The Guidelines

We do not feel we can support the guidelines as proposed.

We answer the specific questions posed in the consultation document below, but we have concerns in a number of areas of the proposal.

Notwithstanding the fact that the current document is diametrically opposed to the views and consensus achieved in April 2008. Ofgem appear to have done a U turn on the green supply guidelines, the overall 'at a glance' information we think is fundamentally flawed.

We do not agree with the bronze, silver and gold awards being made for 'additionality'

The first point to be made is we believe additionality relates to the energy not the consumer. The measures suggested are unrelated to the generation of power.

We feel these proposed guidelines discourage competition as they raise a significant financial barrier to entry in the distribution and supply of 'green' electricity.
The small independents would effectively be discriminated against by the financial might of the Big 6. Many of the proposed additionality measures under 3.23 are actually related to cash for example

- energy efficiency measures, provision of smart energy meters, purchase of carbon offsets, research and development into renewable technologies, contribution to an environmental charity
- We fail to understand how contributing to environmental projects is preferable to a supplier who has made a commitment to deliver 100% green & renewable energy to all its customers.

Paying a set amount to achieve a Bronze rating, for example £30 to an environmental charity, will simply add to the cost of that tariff, actually penalising customers from using renewable tariffs.

If the effect is to push prices higher, the laws of supply and demand mean that increased prices will actually discourage consumers from switching. In effect this rewards companies who offset their tariffs or contribute to 'environmental' projects in cash terms but ultimately may discourage consumers from switching to renewables if they are priced above standard. This is at odds with the overall aim of carbon emissions reduction.

This would also favour the larger international energy companies who can divert marketing budgets to buy into high ratings by investing into new projects.

We feel that using the concept of additionality, as defined in the consultation document, as a factor for discriminating between green tariffs, encourages energy suppliers to become generators to 'prove' that they are investing into renewable generation. This is at odds with privatisation and liberalisation of the industry and seems to be encouraging Vertical Integration. This was also the subject of concern by the recent parliamentary subcommittee.

The proposed measures of investment into smaller scale renewable electricity projects is further reward for companies to become in effect owners of renewable installations. In our view, it is not a lack of investment funds that discourages small scale renewable installations; there are considerable investment funds available. These projects are often hampered by local planning regulations and grid connection issues. Also finding a willing buyer for their electricity who understands small business requirements is another contributory issue. Niche players are extremely well suited to facilitate such energy to market, being of a similar scale and having created a willing demand for such power.

Under the proposals, no account will be taken of additionality that comes from independent generators developing schemes. Indeed, as there will be no rating reward from purchasing renewable power from independent generators, they will be left without the help and support they currently receive in bringing new projects to fruition. Because much of the industry's innovation comes from independents developing or modifying technologies themselves, this will also be lost. The logical conclusion will be that renewable generation has to be owned wholly or partially by the supplier and vertical integration is the only business model that works for renewables if the tariffs are to be awarded the highest ratings under the proposed scheme.

There equally appears to be no incentive to facilitate the installation of domestic small scale generation which is part of the solution we are seeking for energy generation.

The smaller players have been instrumental in creating the voluntary green market and have grown public awareness of green and renewable electricity. The current proposals not only deny the consumer the use of their purchasing power to drive more demand, they make it impossible for suppliers to capitalise on the demand they have created. This is both commercially and ethically flawed.

The smaller players do not have the large portfolios that can be 'sliced and diced'; in effect everything they do is 'additional'. There is no 'business as usual' for the independent players.

Business as usual for the smaller players is all about creating additional renewable power but under the proposed accreditation scheme this wouldn't appear to be recognised.

The existence of the smaller green specialists means that small-scale potential projects can come to market using a PPA to help raise finance. Our experience is that it has not been necessary for retailers to actually invest cash into these projects to bring them to fruition; that is what the market exists for.

There seems to be a mismatch of how paying into funds to grow more trees for example will actually encourage a higher proportion of green or renewable electricity into the National Grid.

Turning to the yoghurt analogy;

Small independent players have always maintained the electricity is delivered through the grid not to the door and the yoghurt analogy used in the proposal is seriously flawed in this respect.

Firstly Yogurt is delivered in discreet packaging, not on a constant supply basis.

But, people buying green tariffs are not buying them to cut the carbon emissions in their own local microclimate; they are buying them for the greater good of the planet.

If the consumers in your yoghurt analogy were interested not in their own health, but that of the population in general, because general fitness would ultimately affect them, then they may well be happy to pay the premium.

However the rest of the nation's health doesn't impinge in quite the same way as the effects of global warming, so the analogy is scarcely appropriate, helpful or relevant.

Consultation Questions

Turning now to the specific questions within the consultation;

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?

Firstly we have some concerns over Tier 1 information which gives a ranking for the additional benefits. Some of our points are referred to above but in the main they are

1) The rankings proposed would be given based on measures that are mainly cash related and encourage ownership of electricity generation.
2) In a business that only deals in new green electricity supply, every unit of electricity that we sell is 'additional' and yet the proposed at a glance tariff information does not account for this in any way.
3) The fuel mix would relate to the overall supplier level fuel mix. This does in theory prevent 'slicing and dicing' so we would cautiously welcome this proposal. However there are also some potential problems with this.
    a. The first relates to the definition of overall supplier. We are a white label supplier. We do however publish our own company level fuel mix that is supported by our own REGO's register and we have individual PPAs with every generator that we work with. We could not sign up to a guideline that forced us to use the overall fuel mix of our licence holder.
    b. The energy disclosure label currently classes electricity generated by good quality CHP in the same way as it categorises natural gas. This seems in direct conflict with the DEFRA good practice regulations for carbon emissions reporting guidelines. Businesses purchasing good quality CHP are able to claim a carbon saving but the Energy disclosure label classifies even LEC exempt CHP from Ofgem accredited generators as Natural Gas

Question 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.

As detailed in the introduction we feel the measure of additionality is inappropriate due to the financial bias of the measures and the belief the measures either favour vertical integration of supply or 'throw' money into environmental schemes that do not result in any additional renewable capacity in the UK.

If a threshold is to be introduced then we would still class 2-4MW as small-scale.

Question 3

Is the examples related to the proposed bands (gold, silver, bronze, etc) 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.

We feel that something relating to carbon emissions by tariff as per the April proposal with the additional measure of company's overall fuel mix may be a fairer way of operating.

Question 4

What are your views regarding the treatment of additionally for non domestic customers particularly with respect to the most appropriate way to rate these tariffs.

We don't accept the definitions of additionality and our objections are the same as for domestics. Adding expenditure merely pushes prices up or allows multinational players to divert marketing budgets.

We don't see how carbon abatement (planting trees elsewhere in the world for example) has any impact on the additional green and renewable energy being produced for consumption in the UK. Additionality should relate to additional green and renewable generation, and is something for the energy industry to address. Carbon abatement and offsets are measures consumers can take. If we become too focused on abatement and offsetting, it is little more than a licence to carry on 'business as usual'.

Additionally relates to the energy not the consumer.

Chapter 4

Question 1: For suppliers do you accept the guidelines in principle
No

Question 2: What form of accreditation scheme will it be possible to deliver by the end of 2008.
On the current proposals, we feel that no form of accreditation scheme would be possible in the time frame suggested.

Question 3: 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.
The accreditation in its current form is new to all parties, isn't workable and requires a fundamental rethink.