

27th August 2008

Response to Ofgem's Consultation on its 'Updated Proposals for Green Supply Guidelines'

Hurleypalmerflatt is pleased that this consultation process has drawn out many of the existing issues of the current green electricity market in the UK, and welcomes the opportunity to provide input on the development of guidelines for green electricity supply.

We are however not convinced of the merit of the updated proposals as they currently stand, and believe that, in order to minimise the risk of unintended consequences, the relative advantages and disadvantages of the two fundamentally different potential approaches to green electricity should be properly analysed and discussed.

The Updated Proposals

The updated proposals for green supply guidelines will provide the consumer with very limited meaningful information about the supply chain impact of the power that they have purchased.

The concentration on proving that additional environmental benefit has been purchased appears to be the only area where an accredited supply can demonstrate its value through differentiation from other products. However, as the Defra carbon offset accreditation scheme already provides consumers with a source of accredited environmental benefit products (albeit with a carbon-specific focus); the value added by a green supply accreditation scheme of this type is limited.

A version of this approach to green electricity could address the core issues of additionality and of double counting of carbon benefit; however as the focus of the updated proposals is on additional environmental benefit, and there is no real link to the electricity purchased, it is our opinion that it would be misleading to refer to this as 'green supply'.

Two fundamentally different approaches to green electricity

Hurleypalmerflatt believe that the final design of Ofgem's green electricity supply guidelines will define a base system upon which future accounting systems for the carbon emissions, renewable content, and other environmental impacts, of purchased electricity are likely to be built in the medium term.



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If double counting is to be avoided one of two fundamental approaches must be adopted to account attributes of green electricity at the point of supply; either:

- Treat all electricity supplied in the UK (both green & brown) as an identical homogenised average; or
- Create a single system to account for and label all electricity products supplied in the UK (both green & brown) with their individual supply chain attributes.

It is hurleypalmerflatt's belief that unforeseen issues are likely to result as a consequence of adopting either of these fundamental approaches, but that failure to make a clear choice of direction will undermine the efficacy of the overall approach to green electricity; both as a means of cutting the current confusion, and as a base for future accounting systems.

A proper analysis of these two fundamental approaches should be conducted to ensure that unforeseen consequences of the required choice of direction are minimised, and that the relative merits of the two approaches are considered prior to the final adoption of one over the other.

Moving Forward

Defra and BERR appear to be the key policy stakeholders with respect to future accounting systems that the green supply guidelines may facilitate (BERR with respect to renewable power, and Defra with respect to carbon and other environmental impacts); and would therefore seem to be the parties who should lead on any analysis of the relative merit of the two fundamental approaches to green electricity. However, as the Ofgem green supply guidelines are likely to provide a key evidence-base for future accounting systems, Hurleypalmerflatt recommend that Ofgem take a lead in facilitating the analysis of these two fundamental approaches and on engaging both Defra and BERR with this issue.

Hurleypalmerflatt believe that there is a particular need for this analysis to be conducted prior to the finalisation of the green supply guidelines if the guidelines are to maintain the approach of the 'updated proposals': in treating all electricity supplied as an identical homogenised average - rather than taking the alternative approach of attempting to create transparency of the supply chain impact of power supplied. This is because we believe that the absence of an appropriate base system of supply chain evidence is likely to create a barrier to the future adoption of evidence based accounting systems.

Conclusions

We welcome any approach that will create an appropriate system of evidence and verification to support both the claims of individual suppliers and prevent double counting at the overall system level. However we are not convinced that



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the updated proposals will add any significant value over and above environmental benefit products which are already available in the wider UK marketplace.

We recommend that, prior to making a final decision on the direction of the green supply guidelines, Ofgem take a lead in engaging Defra and BERR in analysing the relative merits (and potential consequences) of adopting each of the two fundamental approaches to green electricity.

We hope that this is a constructive contribution to the consultation process, and are happy to expand on this response upon request.

Ends

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