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European Strategy and Environment
Ofgem
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27 Aug. 08

Dear Sabreena

The green supply guidelines: Updated proposals

Thank you for the opportunity to respond to the above consultation.

ScottishPower has a leading environmental commitment and our strategic aim is to remain at the forefront of renewable technology. Through our sister company, ScottishPower Renewable Energy Limited, we are the UK's biggest wind farm developer, with over 1200 MW in operation, under construction or consented. Our parent company, Iberdrola, is a world leader in renewables.

We agree that appropriate standards should be set within the green supply market to provide consumer confidence and that voluntary guidelines, supported by an independent verification scheme, have the potential to provide transparency for consumers.

There is clearly a conflict between the principle of additionality and the wish of many consumers to express their support for renewable energy in their purchasing decisions. We do not have a view in principle on how this conflict should be resolved. But if suppliers are to continue to meet their customers' wishes in this regard, it is quite likely that non-accredited products will continue to be sold, perhaps in greater volumes than ones that comply with the new guidelines.

On the basis that Ofgem intends to make additionality the principal criterion for green products, we would like to draw your attention, in particular, to the following points:

- **Timescale**

We are continuing to work towards the establishment of an appropriate scheme to support the green supply guidelines once these are operational. However, experience has led us to believe that it is unrealistic to expect that a robust accreditation scheme can be delivered by the end of this year. In particular, sufficient time must be factored in for the tender process to select an organisation with the capability to deliver and manage such a scheme.

- **Ranking**

We understand the logic about ranking additionality on the basis of spend per customer, but remain unconvinced as there is no judgement of the environmental impact. In particular, it is difficult to see widespread acceptance of gold tariffs (though they may be more widely offered). One approach might be to establish a minimum financial threshold for the delivery of additionality. Achieving this minimum level would introduce credibility and a common understanding amongst customers and would leave suppliers with the choice to deliver over and above this threshold as customer demand increases.

An alternative option might be to start with the bands somewhat closer together so as to allow for affordability for more customers, or there could be some sort of points based system reflecting the environmental benefits delivered.

- **Non-domestic Customers**

These customers need to continue to be able to utilise renewable-labelled electricity in order to qualify for exemption from the Climate Change Levy. There is already a robust legal system in place for verification of Levy Exemption Certificates. We think that changing the labelling of products in this area would cause more confusion than it would save and would suggest that the guidelines are not extended to industrial and commercial users. Defra's recent change to the voluntary reporting requirements is a matter for the industrial users who are reporting their carbon footprint.

- **Fuel Mix Disclosure**

We do not think the guidelines should impose any further requirements beyond the current Fuel Mix Disclosure regulations. Whilst a supplier's Fuel Mix may form part of a customer's decision-making process when selecting a green tariff, this information will be accessible in line with current regulatory requirements.

- **Funding**

In our view it would be appropriate for the costs of setting up the scheme to be met by Ofgem or Government avoiding difficulties in deciding how these costs could be met on an equitable basis by the supply industry. Thereafter, further consultation is required as to how the scheme is funded once operational.

I have attached an Annex that answers the questions contained within the consultation document.

We would be happy to discuss any of these points in more detail with you so please do not hesitate to contact me on 0141 568 3964 or via email at Alison.McKean@scottishpower.com.

Yours sincerely



Alison McKean
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ScottishPower Energy Retail Limited

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Supplementary Annex – Answers to the Consultation Questions

Chapter Three

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

We agree that transparency is a key requirement of the Guidelines and that providing customers with clear and concise information is essential to address the perceived confusion that currently exists. This need for information was supported by our own customer research activity, which identified lack of information and awareness as barriers that make it difficult for consumers to evaluate the relative 'greenness' of available products. The provision of standardised information by suppliers, albeit presented in different formats, will empower customers to make an informed choice based on comparative details.

It is important that key details about the product are provided up front to ensure the customer feels informed at the point of sale. However, concessions need to be given as to how this information is provided and flexibility is required to recognise the different sales channels, e.g. telephone sales vs. doorstep sales.

Customers should then be signposted to where they are able to source more detailed information if they choose to do so and the type of information proposed in tiers 2 and 3 would seem appropriate in this regard.

Whilst this approach is suitable for the domestic market, there may be differing needs amongst business customers, since the contract negotiation process, particularly for I&C customers, will encompass many different elements and suppliers should choose how best they present this information. As before, it would be more beneficial to exclude industrial and commercial customers from the scope of the guidelines and let this market segment continue to operate within the existing legal framework.

We believe Ofgem and other key stakeholders have a role to play in promoting the new Guidelines and accreditation scheme – perhaps through a campaign to raise awareness amongst consumers.

2. Are the examples of additionality that are suggested all correct? Should alternative examples be included? Is the threshold of 1MW for small-scale renewables/low carbon generation appropriate? If you think an alternative threshold would be more appropriate please explain why.

The examples within the consultation document are a useful demonstration of the types of benefits that Ofgem would consider to be additional. We agree that the inclusion of additionality is required to deliver actual environmental benefits but, beyond a minimum threshold that confirms that the product is additional, suppliers should be able to choose how best to deliver this. This will enable suppliers to look for ways to innovate within the market.

We therefore do not see the requirement at this stage to apply a cap to the level of small-scale renewable projects. In line with the proposals, so long as this can be demonstrated as being truly additional activity then the need for a threshold limit is negated.

3. Is the example 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.

Whilst we can work within a framework where additionality is required to demonstrate the delivery of environmental benefits, we do not agree that the proposed banded scheme and the proposed ranking of tariffs based on spend per customer is the most appropriate way to measure additionality. Ranking by spend does not enable any judgement to be made on the environmental impact of any spend. In order to reduce confusion for customers and given the relative immaturity of the market for green tariffs at present, the accreditation process should be kept as simple as possible - a tariff should either be accredited, on the basis that it delivers additional environmental benefits, or not. However, for this model to be effective, we believe that the minimum threshold for accreditation would need to be sufficiently high to ensure the scheme's credibility and to provide a common understanding for customers.

Once a green tariff is classed as being additional – having achieved at least the minimum threshold- and has been accredited under the scheme, how this is delivered should be at the discretion of the supplier. The role of the accreditation body should be to verify the environmental claims made relating to the additionality element and decide if a particular tariff qualifies for accreditation based on a minimum threshold. The supplier has an associated duty to prove their claims to the accrediting body and to explain them in a clear and concise way to the customer.

Under the Ofgem proposals it will be difficult for customers to compare the merits of the different ways suppliers have chosen to deliver their additionality. Increased spend will not necessarily reflect increased CO2 savings or any other increased environmental benefit. Therefore, measuring additionality in financial terms may not be the most suitable indicator and could in fact penalise the delivery of environmental benefits as well as unintentionally impacting competitive differentiation.

We would also be keen to understand more as to how Business as Usual activities will be assessed. These will differ for every supplier and the current proposals do not make it clear how these are to be defined or measured.

In rating additionality, we also need to consider the current pricing pressures within the market. It is generally accepted that additionality carries a premium for the customer. To stimulate the market for green products these need to be affordable whilst also meeting the objectives of the guidelines. In addition, setting a percentage of the customer's bill as bronze, silver or gold standard of additionality, suggests incorrectly that the more the customer consumes, and therefore the higher the bill value, the greater the benefit to the environment. This is in conflict with the consumption reduction message.

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

The requirements for non-domestic customers are likely to differ from the domestic market. Many non-domestic customers will enter contracts for Climate Change Levy exempt energy (to offset their requirement to pay Climate Change Levy or to meet their Climate Change Agreement targets) and will not require anything over and above this.

Additionality is likely to be of interest to those customers with a wider Corporate Social Responsibility agenda. The type of additionality delivered will often form part of the individual contract negotiations with the customer having specific views as to which type of scheme best suits their needs.

It is useful to have examples of the types of schemes Ofgem envisage in the non-domestic market, but it is imperative that flexibility is maintained in both design and delivery to ensure innovation since customer requirements will differ.

We note Defra's intention to consult separately regarding additionality and how this will fit within the voluntary reporting framework in the non-domestic market. It will be important for suppliers and other stakeholders to contribute to this process and use the outcome to better inform the green supply guidelines.

Given this, we believe that it would be more appropriate to exclude the non-domestic market from guidelines. Once the Defra consultation process is complete further guidance will be available for customers interested in reporting on their carbon footprint.

Chapter Four

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

Throughout the consultation process we have continued to support the main objectives of transparency and verification for the consumer and we therefore accept the guidelines in principle. However, whilst we can work within a framework in which additionality is required, in line with our comments above, we do not think the proposals for ranking additionality would deliver the desired results.

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

When finalised, the guidelines will form the basis for the development of the accreditation scheme. There are various organisations with the capabilities of developing and managing such a scheme and sufficient time needs to be allocated to undertake a tender process that will select the most suitable organisation to administer the scheme. It is therefore unlikely that any form of scheme would be in place by the end of the year.

Dependent on when the new guidelines are published, it may be possible that the tender process could be completed by the end of the year and an organisation selected. Work would then commence to establish the scheme during 2009. It is our aim, as part of the ERA Working Group, to achieve this as soon as possible within a realistic timescale.

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.

It is important that any accreditation scheme developed has longevity and the flexibility to adapt over time as the market changes. To achieve this it is important that sufficient time is devoted to the development of the scheme. This will build the success of the scheme and provide longer-term certainty for both customers and scheme participants.

In our view it would be appropriate for the costs of setting up the scheme to be met by Ofgem or Government avoiding difficulties in deciding how these costs could be met on an equitable basis by the supply industry. Thereafter, further consultation is required as to how the scheme is funded once operational.