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Dear Hannah,

#### **Green Supply Guidelines: Updated Proposals**

Thank you for providing Scottish and Southern Energy with the opportunity to comment on the above consultation document. Our detailed comments on the questions are set out in the attached paper, however we thought it would be helpful to reiterate our views on some high level principals.

We believe that the introduction of a certification scheme that is open to all suppliers will provide customers with the assurance about claims made by energy suppliers about the environmental benefits of their products. We also believe that the wide promotion of a scheme and the use of a star ranking could boost customer confidence and trust in green supply products.

However, we strongly believe the guidelines in their current form are too prescriptive and consequently, will inhibit future innovative green tariff development. This well intentioned attempt to regulate part of the market, illustrates the risks of doing so. That is, if the proposed guidelines stand, we believe the voluntary scheme will either be ignored or innovation will be stifled.

We fervently disagree with the concept that ranking the 'greenness' of tariffs should be on expenditure on green activities rather than outcome. We believe doing so would:

- Eradicate existing innovative tariffs, and stifle future innovation
- Encourage an inefficient allocation of resources
- Mislead customers, as there is no guarantee that it would deliver the best carbon reduction
- Move green tariffs out of the reach of the less well off, and into the domain of the more affluent customer. We believe engagement of all customers, at the level they can afford, is an important contribution to meet climate change challenge.

Whilst ranking on £ spend per electricity account gives an air of simplicity, it is unlikely to be that simple to audit and prove in many cases exactly how much is being spent. For example, an innovative product where energy efficiency surveys and advice is provided would need to show the underlying costs of staff managing calls, booking appointments, carrying out surveys and follow up communications. This is not the simple straight forward scheme that Ofgem are looking for.

We strongly believe that the proposed green supply guidelines cannot apply to non-domestic customers in their current form. Much deeper analysis of this unique market area must be conducted, and the proposed guidelines altered to reflect this, before non-domestic customers can be included, as the legislation, purchasing drivers, energy contracts etc of non-domestic (especially industrial and commercial) customers vary dramatically from those of domestic customers. The guidelines for non-domestic customers also need to align with the outcomes of Defra's voluntary Green House Gas Reporting consultation.

We agree that information and transparency to customers is an over-riding principle, but Ofgem should not "prescribe" the way that suppliers communicate with customers.

In their current form, we do not believe the proposed guidelines will facilitate market development without some areas being reviewed. Therefore, we do not accept the proposed guidelines.

Whilst Ofgem have been reluctant to underpin the scheme on carbon abatement or energy saved as it is perceived as too complex, we would highlight the success of the existing CERT scheme in evaluating the carbon abated/energy savings of measures that could equally be adapted to green products, providing they are additional to CERT. We would not however wish to see the scheme operate solely on the basis of carbon abated or energy saved.

We would suggest an accreditation scheme, where the scheme operator would have the discretion to award a star rating (gold, silver or bronze) by judging the proposed green tariff against a list of 'green' criteria, for example: carbon abated or energy saved; perceived greenness; and innovation; including whether the scheme is behaviour changing i.e. reduces customer energy consumption whether long term or temporary. It could be similar to the British Board of Film Classification, where there is an element of discretion left with the censors.

In terms of perceived greenness, Ofgem were clear in the original guidelines that "customer perception can be equal or greater significance than any 'objective' view of the environmental merit of a particular electricity generator or generation technology". We believe it is important this can continue to be taken into account in the accreditation scheme.

We are particularly concerned that unsupported large scale hydro does not qualify as an additional measure under Ofgem's proposed guidelines. Existing large scale hydro is not supported by the RO, but it is unquestionably a renewable resource and qualifies for Renewable Electricity Guarantee of Origin certificates (REGO's) sourced, but not supported, in the UK. The fact that REGO's are generated and awarded in the UK means that they are traceable and clearly unsupported at any stage.

Whilst it does not require any support from the RO, it is firmly recognised under the proposed EC Renewable Energy Directive as being a valid technology in supplying renewable energy, defined by Directive 2003/54/EC. It is therefore a valid signal to generators to fully run and/or refurbish hydro plant to gain higher efficiencies that may otherwise not have happened. It clearly benefits the environment.

Our large scale hydro generation is run to meet the demand of customers currently signed up to our hydro backed offerings. If this generation was to fall out of the plant merit order, we would still be required to run this generation to meet this group of customers' demand. Any decision not to recognise this unsupported renewable generation under the accreditation scheme would cause us to consider whether we should seek independent green accreditation. We believe existing and unsupported large scale hydro is consistent with customers' perception of 'green supply' and is not misleading to customers.

The final element, innovation, needs to be allowed as it is not possible at this stage to make provision for all measures that in future will abate carbon or save energy.

I hope that our comments are helpful. If you would like to discuss any of the points raised in more detail, please do not hesitate to get in contact.

Yours sincerely

Claire Riach  
Regulation Analyst

**Q1: 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?**

As a supplier we agree the need for transparency and provision of information but request the discretion to word and present the information requested under Tier 1, 2 and 3 as appropriate to the market and acquisition channel. We firmly believe that it should be left to the supplier's discretion as to how such information is communicated and to whom. The successful suppliers will be those that get the product design, marketing and information balance right as they will acquire the most customers and have the best retention rates.

We agree that it is important that customers are not confused about the products available but this must be balanced against a potential surplus of information. More information does not necessarily mean less customer confusion. The key therefore is in the design of the accreditation process and customer awareness of the scheme which gives the customer confidence that any claims being made are genuine. It is our firm view that the onus should be on the supplier to obtain accreditation with the customer only having to know whether the accreditation was achieved. The more curious customer will be able to obtain all the additional information they need by understanding the accreditation process and by asking their supplier and/or the scheme for further details.

**Tier 1**

We believe that the level of information proposed should not always be a prerequisite at the point of sale unless the customer requests it. If the industry achieves its objective in designing a robust accreditation scheme, the customer should have confidence in the tariff if the supplier confirms that the tariff has been through the accreditation process.

We are concerned that the provision of supplier's fuel mix disclosure as a percentage, without any reference to total supply volume, has the potential to mislead customers. Small suppliers are better placed to procure an entirely green supply backed by REGOs. As a larger supplier, it would not be possible for us to source our customer demand entirely from green sources and yet we have the largest renewable portfolio of all suppliers in the UK marketplace. The presentation of this information as a percentage overlooks a supplier's volume of generation and may lead customers to believe a supplier is greener or less green than they really are. We therefore do not believe fuel mix disclosure information should feature prominently in the marketing of 'green' supplies, over and above the general requirement for fuel mix disclosure that apply to all customers.

In any event, the supplier is required under its licence to take all reasonable steps to bring the Principal Terms to the attention of a domestic customer before entering into a contract. We consider that it would be more appropriate for the suppliers to provide such information to customers as part of the confirmation or fulfilment process, where customers have an opportunity to examine supporting information and contact the supplier if they have any questions.

In addition to the above concern regarding misleading representation, we believe there is a more practical issue with providing fuel mix disclosure information at the point of sale. Customers are able to sign up to tariffs through a range of media and it will not always be appropriate to recite/provide this information at each point of sale. We therefore recommend that Ofgem makes use of the current approach, whereby this information is provided to customers on an annual basis.

**Tier 2**

We believe Ofgem's suggested Tier 2 information should be made available should the customer request it, but should not be an essential communication within the sign up process.

**Tier 3**

In the interests of transparency, we agree that information should be made available to customers and other stakeholders about Government policy initiatives relating to the environment and where appropriate this could include the costs of such initiatives, however the main body responsible for this should be the accreditation scheme.

**Information Portal**

One of the key objectives of the guidelines has always been to deliver transparency regarding green tariffs to facilitate customer understanding of these products. We believe that tier 2 and 3 information should be standardised, and made available to customers by the accreditation scheme via channels that are accessible to all customers (e.g. website, direct mail), rather than at supplier level. This will ensure transparency and consistency of information available to customers.

By using the accreditation scheme as the portal of information it will provide a point of reference if customers require further information, whilst ensuring that costs to customers from suppliers are kept to a minimum. The information available via the accreditation scheme for domestic customers should include:

#### Scheme

- What qualifies a tariff as gold, silver or bronze star
- What qualifies as 'Additional Environmental Benefits'
- How the scheme operator ensures the claims are correct
- What happens if a claim is incorrect
- Routes to make a complaint

#### Policy

- Explanation of net grid average assumption
- Explanation of renewable energy and technologies available
- Explanation of additionality measures available in the market
- Explanation of EUETS and EUAs
- Explanation of REGO
- Explanation of Renewables Obligation and how customers are already contributing
- Explanation of CERT and how customers are already contributing
- Links to DEFRA Carbon offsetting
- Who to contact for more information

#### Tariffs Available

- Explanation of fuel mix disclosure
- List all suppliers' fuel mix disclosures and the quantity supplied
- List green tariffs available with explanation of what additional environmental benefits are achieved by signing up to the offering

Customers must be able to easily understand the attributes of competing tariffs. Therefore suppliers must be prepared to provide both basic and more detailed information regarding the attributes of the tariff.

**Q2: 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.**

#### Renewable Sourced Supply

We believe this proposal suitably addresses the ongoing concern that green tariffs enable suppliers to extract their obligated green supply from their standard tariffs and re-package this obligated supply for the purposes of marketing and selling a green tariff. From a customer perspective, we agree that this can be misleading and believe that customers should have the necessary assurances whenever they sign up to a green tariff that their supply is in some way delivering something more than is already obligated or supported. We believe that renewable sources of supply are of value to customers, providing there is clarity and transparency about what is being supplied. On this basis we propose that renewable source supply is re-defined for the purpose of this accreditation scheme as; that which is above a supplier's obligation (above customer pass through charge) and non-RO supported renewables (customer is not paying a pass through charge).

#### Existing Large Scale Hydro

We therefore believe that Ofgem should include in its definition of additionality, existing large scale hydro. Existing large scale hydro is not supported by the RO, NFFO or SRO, but it is unquestionably a renewable resource and qualifies for Renewable Electricity Guarantee of Origin certificates (REGOs) sourced, but not supported, in the UK. The fact that REGOs are generated and awarded in the UK means that they are traceable and clearly unsupported at any stage.

We disagree that it should have to meet a requirement to be above business as usual. Not only can this be difficult to prove, but would also rule out all renewable generation in the future being eligible as green products once they had come out of the RO or their NFFO/SRO contracts. In effect, Ofgem's decision now would rule out all these future products. The scheme should be based on a simple definition and that definition should be that it is not supported.

Whilst it does not require any support from the RO, it is firmly recognised under the proposed EC Renewable Energy Directive as being a valid technology in supplying renewable energy, defined by Directive 2003/54/EC. It is therefore a valid signal to generators to fully run and/or refurbish hydro plant to gain higher efficiencies that may otherwise not have happened. It clearly benefits the environment.

Our large scale hydro generation is run to meet the demand of customers currently signed up to our hydro backed offerings. If this generation was to fall out of the plant merit order, we would still be required to run this generation to meet this group of customers' demand. Any decision not to recognise this unsupported renewable generation under the accreditation scheme would cause us to consider whether we should seek independent

green accreditation. We believe existing and unsupported large scale hydro is consistent with customers' perception of 'green supply' and is not misleading to customers.

Given our strong belief in the green credibility of our existing large scale hydro output, a decision not to recognise this unsupported renewable generation under the accreditation scheme would cause us to consider whether we should seek independent green accreditation. We believe existing and unsupported large scale hydro is consistent with customers' perception of 'green supply' is not misleading to customers, and meets Ofgem's original view that "customer perceptions can be of equal or greater significance than any 'objective' view of the environmental merit of a particular electricity generator or generation technology".

### **Carbon Offsetting**

We believe carbon offsetting could be included as long as the offsetting taking place meets Defra's existing set of carbon offsetting standards. A value for carbon abated or energy saved can be assigned to it.

### **Carbon Capture and Storage (CCS)**

We believe CCS should not qualify as additional as it is not a form of renewable generation, or a yet proven technology. We believe if it were to be included, it would act to further confuse customers and have a detrimental impact on the scheme's creditability. We also do not believe that even a gold star tariff of a £40 spend per customer would make any impact on bringing this technology to the market earlier due to its large associated costs.

### **CERT Qualified Energy Efficiency Measures**

We believe CERT qualified measures could be included on the condition that the measures are proven to be over and above the supplier's CERT obligation, and not supported. A value of carbon abated or energy saved can be assigned to it.

### **CHP District Heating/Cooling**

CHP District Heating/Cooling could qualify as additional if it can be shown not to be business as usual and is not supported. Proving that it is not business as usual will be very difficult. A value of carbon abated or energy saved can be assigned to it.

### **Environmental Charities**

For environmental charities to qualify as an example of additionality, charities would need to register as so, as there is no common process or qualifying scheme for doing so currently. This measure could be ranked under the innovation rating.

### **EUA Retiral**

This could be included. It can be compared to ROC retiral, therefore if ROC retiral is included, so should EUAs. However, if Ofgem believe that ROC retiral would have no benefit in the UK market, retiral of EUAs on a European market could be similarly criticised. A value of carbon abated can be notionally assigned to it.

### **Green Research Funds**

A decentralised green research fund could qualify as additional as long as its performance is subjected to the same additionality criteria as direct investment into renewables. This measure could be ranked under the innovation rating.

### **Heat Pumps**

Wind, water and air source heat pumps could qualify as additional as they are not supported. Proving that it is not business as usual will be very difficult. A value of carbon abated or energy saved can be assigned to it.

### **Nuclear**

We do not believe nuclear should qualify as additional as although this is a zero carbon technology and not supported, it is unlikely that a customer demand pull could ever bring forward new nuclear in the same way that renewable sourced supplies could, given the level and scale of investment required. We believe that even a gold star tariff of a £40 spend per customer would not make any impact on this technology due to its large associated costs. We therefore feel if these are included, it would act to further confuse customers and have a detrimental impact on the schemes creditability.

### **Renewable Generation**

We agree that renewable generation that is not supported should qualify as additional. We would like this to extend to all supported generation i.e. NFFO and SRO. We would ask for Renewable Generation that is eligible to be re-defined to include existing large scale hydro and would refer back to our proposed definition for this purpose. A value of carbon abated can be notionally assigned to it, and it would also qualify as perceived greenness.

### **ROC Retiral**

We do not believe that customers would feel misled by suppliers offering a green tariff that was backed by ROC retiral. Whilst we support Ofgem's decision to exclude RO backed supply on the grounds of double

counting/transparency, we believe ROC retiral has its merits in giving the longer term signal for additional renewable energy and it should be for suppliers to decide if they want to offer additionality through this mechanism. A value of carbon abated can be assigned to it.

### **Solar Thermal**

Solar thermal could qualify as additional. Proving that it is not business as usual will be very difficult. A value of carbon abated can be assigned to it.

### **Review of Measures**

We agree that in order to secure customer confidence in suppliers' green supply products the guidelines should be updated and developed such that they act as an umbrella framework under which a new certification scheme would operate. In keeping with this principal, the guidelines should be sufficiently broad and flexible so that they can accommodate changes in the competitive market without needing to be revised frequently.

### **1MW Threshold**

All new renewable generation will qualify for support under the RO, thus rendering the 1MW limit irrelevant for renewables. We believe the 1MW limit to be appropriate for low carbon generation (if it were included as a measure of additionality) such as good quality CHP or CHP district heating/cooling, as it is aligned with Distributed Energy licence regulation.

### **Q3: 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 rating would be better, please explain why and how it would work in practice.**

#### **Ranking on £ spend per electricity account**

We believe that ranking the greenness of tariffs on expenditure on green activities rather than outcome (i.e. carbon abated or energy saved) will lead to inefficient allocation of resources and be misleading to customers, as there is no guarantee that it would deliver the best carbon reduction or energy saving. This 'additional expenditure' could also move green tariffs out of the reach of the less well off, and into the domain of the more affluent customer. We believe engagement of all customers, at the level they can afford, is crucial to meet the challenge of climate change. We do not agree with setting a minimum £ expenditure standard for the same reasons.

#### **Star Rating**

We strongly agree with Ofgem's verification gold, silver and bronze star ranking, believing that a star rating scheme will make it much easier and clearer for customers to make informed choices when choosing an electricity tariff.

### **Q4: What are your views regarding the treatment of additionality for non-domestic customers, particularly with respect to the most appropriate way to rate these tariffs?**

We agree that given the relative size of their energy purchases, it is likely that inclusion of non-domestics would facilitate significant environmental benefits. However, as the non-domestic market is driven by different needs to the domestic customer (CRC, GHG reporting), particularly the industrial and commercial market, there would need to be much more attention focussed on this market before any decisions over a scheme could be made. We believe that the guidelines cannot be made applicable to non-domestics in their current form as the guidelines do not take into account the complexity of the non-domestic market.

### **Q5: For suppliers, do you accept the guidelines in principal?**

In their current form, we do not believe the proposed guidelines will facilitate market development without some areas being reviewed, and therefore do not accept the guidelines in principal.

We have concerns that the guidelines in their current form may lead to further customer confusion. We believe that ranking the 'greenness' of tariffs on expenditure on green activities rather than outcome (i.e. carbon abated or energy saved) could lead to inefficient allocation of resources and be misleading to customers, as there is no guarantee that it would deliver the best carbon reduction. This additional expenditure could also move green tariffs out of the reach of the less well off, and into the domain of the more affluent customer. We believe engagement of all customers, at the level they can afford, is crucial to meet the challenge of climate change.

We remain committed to the common objectives of customer clarity and transparency and believe there is a place for additionality to deliver further environmental benefits. How additionality is assessed and ranked requires further consideration.

We are also concerned that the proposals are too prescriptive and that this will therefore risk inhibiting future green product development. We agree that information and transparency to customers is the over riding principal, but do not agree that the way suppliers communicate with customers should be 'regulated'.

We suggest an accreditation scheme, similar to that of the British Board of Film Classification. The accreditation scheme operator would have the discretion to award a star rating (gold, silver or bronze) by judging the proposed green tariff against a list of 'green' criteria, for example: carbon abated or energy saved; perceived greenness; and innovation; including whether behaviour changing i.e. reduces customer energy consumption; whether long term or temporary. The scheme would have an appeals process and the value placed on individual criteria would be continually updated in light of new information.

**Q6: What form of accreditation scheme will it be possible to deliver by the end of 2008?**

Provided the issues we have raised in this response are addressed, we see no reason why the accreditation scheme could not be up and running in a matter of months.

**Q7: 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.**

As above