

## Green Supply Guidelines – npower response 27<sup>th</sup> August 2008

npower welcomes the opportunity to participate in this consultation on Green Supply. We have participated in workshops throughout this process, and have signed the letter from the group of suppliers, facilitated by the Energy Retail Association.

We are supportive of the general thrust of Ofgem's updated proposals for green supply guidelines, and will support further work to firmly and clearly establish the key principles, the details of the accreditation criteria, and the setting up and operation of the scheme.

In the meantime, we have enclosed our detailed comments.

### Consumer understanding and choice

There are a variety of relevant objectives that fall under the general banner of "green", including sustainable, lower carbon dioxide, lower direct and indirect emissions of greenhouse gases, sequestration, and renewable. In addition, under the same banner, consumers can regard a wider range of activities in considering the environmental footprint of their energy supply. This may include, for example, procurement policies, conservation and other activities engaged in or financed by the supplier but not directly associated with the power consumed. The business sector also refers to formal accreditation, such as ISO. Consumers have different views on the relative importance of remoteness, so some may wish to support a project that is locally visible, whilst others prefer a larger carbon impact from activities in Asia. Finally, since the greenest kilowatt hour (kWh) is the kWh not consumed, then some consumers wish to be associated with the provision of energy efficiency. Similarly, there are a variety of schemes, and a variety of regulations, obligations, and levies/taxes/rebates under a variety of local, national and international jurisdictions.

Power production produces a variety of external effects, and "green" power is generally defined according to what it does *not* rather than what it *does* produce. Whilst most consumers would probably agree that Greenhouse Gas output mitigation is the main priority, their views vary substantially over such diverse "bad" characteristics as visual amenity, accident risk, and impact on specific habitats. Consumers may wish to take their own view on the mix of objectives that they may wish to pursue. For example they may feel that the accreditation rules for, for example; nuclear, large hydro, energy from waste, or methane from mines, does not accord with their private views.

We believe that if either the ranking scheme is overly prescriptive, or if it exposed to viable challenge by NGOs and other stakeholders, then domestic consumers may be confused by rival claims with regard to the validity of the

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ranking and/or accreditation, and business consumers may elect to ignore the scheme and abide by their own standards or abandon interest in green supply.

### Additionality

At the highest level, the term “additionality” adequately represents the concept of something that would not have happened without the consumer intervention. Broadly speaking, we support the validity of Ofgem’s phrase “ an environmental benefit that would not occur under a “Business as Usual” scenario”. Under specific jurisdictions, such as the Clean Development Mechanism within the Kyoto Protocol, there has been much effort for many years in clarifying the rules of additionality. Scheme accreditation does recognise the existence of greenhouse gas regulatory schemes in the regions in question, but even with a single measure (CO2 tonnes equivalent) and a relative lack of regulatory overlap between ratified and non- ratified countries, it has taken a matter of years to get the definition of additionality into a robust enough status for an accreditation scheme.

With the substantial overlap across objectives, regulatory schemes, and jurisdictions, the concept of additionality for domestic electricity supply products in Great Britain, will be hard to prove. For this reason, to make the scheme workable, the definition of additionality should be broad.

We believe that whilst additionality is important, and that education is important to facilitate the understanding of this difficult concept, consumers should have the right to choose what they support. To do so requires transparency and information, but then the decision as to which kind of additionality is better than any other should be left to the consumer.

Business as Usual must include the substantial uncertainty on the societal value of carbon, of the international prices for fossil fuels, and national and international regulatory change. As a result, projects must cater for the (positive and negative) values of such uncertainties. A narrow definition of additionality then would only include projects that are manifestly uneconomic under all reasonable outcomes (otherwise they may be counted as business as usual). These projects may experience in addition the problem of double counting; i.e. counting the first time for a manifestly uneconomic scheme that has a potential environmental benefit, and counting the second time if the scheme eventually becomes economic. Such double count may not be incorrect, but should be clear.

### Consumer pull

If the energy content of supply is allocated and reported it to customers, this would create customer pull on the desired production, since if consumer interest in the environment is significant, then customer demand will outstrip the regulatory requirement. For example if in the business sector, the demand for renewable power (as defined by the Levy Exempt Certificate, the LEC) outstrips supply, then the LEC price will rise above the Climate Change Levy against which it is redeemed, and this premium flows through to an amount received by renewable generators, which would, if sustained, ultimately increase the volume of renewable generation.

Evidence suggests that, across the whole consumer base, the average premium that consumers are prepared to pay for green tariffs, remains relatively low, and particularly with rising energy prices, there will need to be a spectrum from accessible no premium tariffs to “deeper green” more expensive tariffs. The same principles apply as for additionality schemes – that if consumer demand rises, then no premium tariff availability will become scarce, and the premium from higher premium tariffs will flow through to renewable energy production.

Accordingly, whilst consumer commitment to green tariffs remains relatively low, we believe that the baseline for a tariff to qualify as Green should be set low enough for it to correspond to no premium tariffs. “Raising the bar” can be timed according to the success of the consumer pull.

#### Accreditation criteria

We believe that the accreditation criterion should recognise the two key attributes of; i) energy content labelling and ii) additionality, and that the qualification should be set at a level that does not preclude no premium tariffs.

Accordingly, an appropriate baseline for a residential green tariff might be; i) submission of a UK based Renewable Guarantee of Origin, and ii) evidence of the supplier incurring some spend towards 100% renewable generation, such as through a decentralised dedicated fund.

We believe that it is probably too soon to establish a prescription on ranking, even at the relatively coarse level of bronze/silver/gold, but that it would be fully appropriate to enhance the ranking system as consumer interest and commitment develops.

To introduce a prescription for “green-ness” in the early stages of the scheme, seems to us to have the potential to act against the principle of transparency and customer choice, but instead gives a regulatory prescription of green definition.

If the accreditation specifically relates to Carbon Dioxide, and reinforces this by ranking, then this should be transparent. The risk is that consumer pull for other definitions of Green has the potential to undermine the scheme and add confusion.

If the scale were measured in carbon abated and that the additionality criterion was very clearly defined, then careful consideration would need to be given to the conversion factor for all schemes under the green banner, the definition of carbon (e.g. carbon equivalent for greenhouse gases), inter-scheme consistency (e.g. retirement of Clean Development Mechanism Carbon Emission Reductions), and compatibility.

#### The business sector

The business sector differs from the residual sector in a number of relevant ways; i) the ability to provide expert resource to apply to this problem, ii) their own responsibility to their consumers to enhance their ethical footprint and to be

accountable for claims in this regard, iii) their propensity to contract on a relatively long term basis, iv) commonly international activity, stakeholders and procurement.

These features have caused the business sector to engage in various commitments for green-ness that match the electricity that they have purchased.

We believe that it is of paramount importance not to undermine the commitments that business customers have already made. If suppliers have in good faith, procured specific attributes, that consumers have bought in good faith, then it would be very damaging if these efforts are undermined by discreditation. We believe that “raising the bar” can simply be achieved by a forward plan for tightening the requirements. So for example, a progressive increase in the standard required for the “best” product.

With their international dimensions, businesses may wish to conform to, for example the World Resources Institute / World Business Council for Sustainable Development Greenhouse Gas Protocol. As with the residential sector, it would be unhelpful if the Green Supply Guidelines were unduly incompatible with international standards such as these.

In the business sector, we believe it to be particularly important to recognise energy efficiency as the greenest form of energy.

In general, we believe that further time is ideally required to make green supply guidelines for business acceptable to the community of business consumers, and hence to related product propositions by supplies. The DEFRA consultation on Greenhouse Gas Reporting will give further opportunity to develop the concept in a manner that it compatible for the wider aspects of the business sector.

#### Labelling and consumer accreditation

Whilst some consumers wish to ensure that their contribution (or their supplier’s contribution associated with the product) delivers some additional environmental benefit through the direct funding of such benefit, other consumers are more interested to know specifically where their power comes from.

Notwithstanding the complexities of the delivery of electric power and the labelling of “electrons produced” and “electrons consumed”, if all attributes of power are labelled on production, labelled on consumption, and matched as a total, then the labelling is credible, regardless of where the “electrons” go.

The accumulation of schemes over the years has given rise to some double counting and some omission of labels. For example both ROCs and LECs have power station assignments, which partially overlap with each other and with REGOs, and the Fuel Mix Disclosure effectively creates a Notional Electricity Guarantee of Origin for non REGO accredited power.

The “repackaging” of “existing generation”, so that “some customers are attributed more and others less” of environmental labels, is a complex subject. The EC Fuel Mix Disclosure provisions, Article 3.6 of the Electricity Directive (2003/54/EC),

transposed into Electricity Supply Licence Condition 21, require Fuel Mix Disclosure (FMD) by suppliers. This operates at licensee (or supplier) rather than product level but suppliers may allocate the Renewable Electricity Guarantees of Origin (REGOs) (which are used as evidence of the energy source as part of FMD) at a product level to a green tariff.

We understand Ofgem's objection to all reallocation, as in the extreme and in the short term, whilst the great majority of consumers feel that they have higher priorities than energy content, the "bads" associated with electricity production, then reside in the standard product, leaving an apparent green product as the remainder. Over the long term, we believe that reallocation is entirely correct, because it gives consumer choice, follows the proper attribution of energy content, creates the pull for particular forms of energy, and ultimately elevates the baseline as the majority of consumers become engaged with energy content. The question then is how to handle the interim. We believe that any guidelines should obey the fundamental principle of regulatory stability and hence "raise the bar" on a planned and incremental basis. Put simply, if consumer interest in green supply can be developed further, then allocation of energy content can only be helpful, and if it cannot be developed, then allocation is harmless at worst.

Whilst the status quo is not perfect, as the array of regulatory schemes is hard even for practitioners to understand, we do believe that the claims by suppliers are well founded and fit for purpose, and that advertising standards and various laws give adequate protection.

#### Additional products

Whilst we are prepared to sign up to a scheme for products that live under a specific banner of green, we will obviously feel free to make any appropriate claims about our products that are, *inter alia*, legal, decent, honest and truthful. This may include products that have some social, ethical, environmental or similar dimension that may not fall within the accreditation remit of Green Supply.

#### Consumer education

We believe that there exists adequate consumer protection and that no scheme will eliminate consumer confusion in this complex area. The real key is for all parties to continue to work towards education of all consumers, not just the bill payers.

#### The scheme

In the residential sector, we would in principle be prepared to sign up to such a scheme, subject to agreement on the specifics described above.

Broadly speaking, since we do not support an onerous accreditation process, we do not believe that the scheme should be expensive.

In the business sector, we believe it to be of paramount importance that efforts to date by suppliers and consumers are not undermined, and hence accreditation should be

phased appropriately. We also believe that energy efficiency should be included, and that international standards should be respected.

### Summary

- Consumer choice should remain an abiding principle
  - Accreditation should not limit consumer choice, nor be onerous to administer
  - Residential consumers rightfully expect transparency, and therefore the origin or source of their green energy must be clearly identified
  - The principle of additionality is appropriate for residential consumers and expected by them, but should not be overly onerous or complex to understand
  - Green energy must not be double counted
  - Energy efficiency should be designated as green
  - International standards are important to business consumers and should be respected
  - For business customers, it is essential not to undermine the commitments that suppliers and consumers have already made to green supply.
  - Consumer education is an important factor in reducing confusion
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- For residential consumers, we could in principle sign on to Green Supply Guidelines
  - For the business community, we believe that further work is required
  - The cost and complexity of the scheme should be commensurate with the consumer volume and appropriate degree of accreditation

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