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Dear Robert and Frankie,

INTERIM ARRANGEMENTS: FUEL-MIX DISCLOSURE IN THE SEM

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

In this response Viridian Power & Energy (VP&E) comment specifically on:

- (1) Interim methodology for calculating supplier fuel-mix and a proposed alternative
- (2) Presentation of the fuel-mix information and a proposed alternative

By way of background, VP&E understand that the primary objective of the fuel mix disclosure work stream, encompassing this and other consultations since March 2007 and a recent high level decision paper published in April 2009, is to achieve compliance with Article 3(6) of the Internal Markets Directive.

The Regulatory Authorities (RAs) have identified the objectives of Article 3(6) as follows:

1. increase market transparency by providing open and easy access to relevant information;
2. comply with consumers' rights to information regarding purchased products;
3. enable consumers to make informed choices about suppliers based on the generation characteristics of the electricity they supply; and
4. educate consumers and stimulate electricity generation that contributes to a secure and sustainable electricity system

The RAs have added to the above objectives their own requirements based on ease of implementation, cost effectiveness, legislative consistency, and ease of use by customers.

(1) Interim methodology for calculating supplier fuel-mix and proposed alternative

Three options for an interim solution to fuel mix disclosure are subsequently considered in the context of the above objectives and the RA specified criteria. In summary, Option One is to have no new calculation; Option Two is to use the average fuel-mix; and Option Three is to use the average fuel-mix net of bilateral purchases. Options One and Two are customarily discounted on the basis that One is out-of-date and hence misleading and Two does not allow suppliers to differentiate their offerings to customers. By default Option Three is the preferred option according to the RAs because it would *allow suppliers to differentiate their offerings* and is consistent with the Directive objectives *in so far as it is possible in a pool market*.

Viridian Power & Energy (VP&E) are not convinced that Option Three is the best option or that all potential options have been contemplated or fully explored. We consider Option Three a retrograde step over existing arrangements which allows customers to differentiate suppliers on the basis of their full remit of fuel sources. Option Three only recognises bi-lateral purchases (effectively renewables and peat). This means that customers cannot differentiate suppliers on the basis of their oil, coal and gas generation components. This does not satisfy objective 3 because customers cannot make an informed choice based on partial and asymmetric information. Neither does it satisfy objective 4 because fuel sources other than renewables and peat contribute to a secure and sustainable electricity system. For example Action Renewables, the lead authority on renewables in Northern Ireland, openly endorse natural gas for its environmental and security of supply benefits. The following extract from their website is illustrative¹.

“Natural gas is the cleanest, most efficient of the fossil fuels; it contains more energy per weight than any other fossil fuel and produces the least carbon dioxide, which makes it very attractive for power companies and individuals concerned with climate change... There has been a huge rush in recent years to build combined-cycle gas-powered power stations... The reasons for this are: natural gas is more efficient; the power stations’ carbon emissions are lower; less storage is required; transportation costs are lower; and security of supply compared to importing coal from Poland is higher”.

According to Article 3(6) consumers should be able to make an informed, educated choice of supplier that will promote generation that contributes to a secure and sustainable electricity system. This is a reasonable requirement and VP&E cannot accept that the gross mandatory pool design of the Single Electricity Market (SEM) prevents it from happening. Our understanding of the high level decision paper published in April 2009 is that the enduring

¹ <http://www.actionrenewables.org/site/default.asp?CatID=5021&parentid=4876>

solution will enable suppliers to differentiate their offerings via Renewable Energy Guarantees of Origin (REGOs) for renewable energy sources and Generator Declarations for non renewable energy sources. Depending on its implementation this would seem broadly consistent with the objectives of Article 3(6) and would allow customers to differentiate between electricity suppliers based on their coal, gas, oil and renewable generation mix.

Given time pressures we understand the need for an interim solution that will be relatively easy to implement and cost effective. However the interim solution should also meet Article 3(6) objectives as we envisage the enduring solution will. Option Three, for reasons explained earlier, does not satisfy this requirement. We therefore propose an alternative that does. Our proposal is that generators should be allowed to create self-declarations of their exported generation output and its associated fuel source and environmental impact. This information is readily available from Eirgrid and the Environmental Protection Agency (EPA). These self-declarations could then be provided to suppliers in the market upon request who could evidence these self-declarations as an alternative to being calculated at the pool average. We suggest also that all self-declarations and renewable declarations be removed from the pool average calculation to ensure that generator outputs are not double counted.

We note the following points of relevance to this proposal:

- Ownership arrangements are not in our view particularly relevant to our proposed approach. The key consideration is that suppliers are allowed to reach agreement with generators to use a self-declaration rather than revert to the pool average. We suggest that this will only require regulatory oversight to ensure that generators do not self-declare with respect to more output than has been calculated by the relevant TSOs.
- The approach is fully consistent with the intent of the Directive by informing consumers and promoting generation that contributes to a secure and sustainable electricity system
- The consultation paper notes on several occasions that the interim solution will not prejudice the outcome of the enduring solution. However, by custom and practice the interim solution is likely to endure and we should therefore choose an interim solution more in keeping with the intent of the Directive than Option Three. We believe our proposal satisfies this requirement and is a significant enhancement on the one-size-fits-all approach suggested by Option Three.
- The Directive does not refer to pool markets, only energy exchanges. VPE do not concur that the pool market can be considered an energy exchange given the mandatory participation in the SEM.

(2) Presentation of the fuel-mix information and proposed alternative

Our customers would like to see the green credentials of suppliers certified by an appropriate independent authority, via guarantees of origin or otherwise, and we are keen to progress this for them. We suggest that certification of greenness could also be accompanied by annual audits to ensure that a supplier's green demand does not exceed its green supply which would thus safeguard against any potential double counting of greenness. For us, this is the substantive issue that needs to be addressed urgently by the RAs.

We contend that existing arrangements do not misrepresent reality. There is nothing in the current fuel mix disclosure table to indicate that a suppliers' average fuel mix applies to any particular customer. There is no double counting and customers are given sufficient information about the fuel mix of their supplier to make environmentally driven value judgements.

Nonetheless, we do acknowledge your concerns and would like to suggest reforms to the proposed presentation of fuel mix information that will pragmatically achieve your aims². We would suggest the following, noting that there is nothing to prevent suppliers from providing more detailed information if desired (which will thus encourage innovation)³. A worked example of what we are proposing is shown in Appendix I.

Proposed Solution

1. Customers choosing a green product are shown their percentage green on the front of the bill
2. The back of the bill contains the fuel mix disclosure table. This includes the average fuel mix for Ireland, the supplier's average mix and the fuel mix applicable to the supplier's typical product.
3. The fuel mix disclosure table would then include an explanatory note stating that unless stated otherwise on the front of the bill the customer has chosen the standard product.

The above solution will provide accurate information on an individual customer's fuel mix, in so far as an ex post mechanism can, and it should be reasonably compatible with any modern workflow and billing system design. In terms of implementation we would still ask for sufficient time to engage with the RAs for clarity on the decision, analyse the requirements with third party suppliers, design changes required to the system and bill layout, modify systems and internal processes, implement changes within the live system, modify

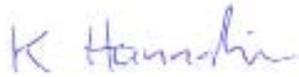
² The presentation of fuel mix information outlined in Appendix A (especially Figure 2) of the consultation paper is unworkable.

³ Ideally, suppliers should be free to choose their own way of presenting fuel mix information in order to minimise costs and promote innovation.

stationary, train staff, and incorporate additional queries and verification checks into our systems.

We are keen to work with you in implementing the requirements of article 3(6) of EU Directive 2003/54/EC in a workable and effective manner.

Yours sincerely



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