



Management Report

npower

'Green Tariffs' -
Management Report

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VERIFICATION STATEMENT

Scope of work

npower Ltd (npower) engaged EcoAct UK to provide independent third-party verification of its 'Cleaner Energy Fix', 'Go Green Energy Fix' tariffs launched up until 31st March 2019 in relation to their environmental claims. We audited the systems (processes, people, software) that npower designed to ensure that these claims are met.

Tariff environmental claims

npower state the following for each tariff:

1. **'Cleaner Energy Fix** – 100% of electricity and 15% of the gas consumed by customers on these tariffs will be matched by Renewable Energy Guarantees of Origin Certificates (REGOs) and Renewable Gas Guarantees of Origin Certificates (RGGOs) respectively.
2. **'Go Green Energy Fix' (prior to July 2019)** - 100% of electricity and 15% of the gas consumed by customers on these tariffs will be matched by Renewable Energy Guarantees of Origin Certificates (REGOs) and Renewable Gas Guarantees of Origin Certificates (RGGOs) respectively.
3. **'Go Green Energy Fix' (post July 2019)**- 100% of electricity will be matched by Renewable Energy Guarantees of Origin Certificates (REGOs) and ensure that 100% of gas consumption is carbon neutral.

For customers of the 'Go Green' tariffs, npower will also pay Trees for Cities to plant a tree in the UK.

Roles and responsibilities

The management of npower is responsible for:

- Designing, implementing and operating the 'Cleaner Energy Fix', 'Go Green' tariffs whilst ensuring the products are aligned with internal npower product documentation, and;
- Maintaining internal control and quality checks so that the tariffs' operation and environmental claims are fairly stated and free from material error.

EcoAct is responsible for:

- Expressing an independent assurance opinion on the 'Cleaner Energy Fix' and 'Go Green' tariffs in relation to their environmental claims, and;
- Reporting our opinion, conclusions and recommendations to the management team of npower.

Description of activities

We evaluated the design of the 'Cleaner Energy Fix' and 'Go Green' tariffs, including the processes and controls implemented for product management, to maintain their environmental claims. As part of our work, we:



- Audited the system that npower designed and operates to ensure that the environmental claims of the product are met;
- Analysed the interaction between the 'Cleaner Energy Fix', 'Go Green' and 'Business Renewable' products and reviewed npower's Fuel Mix Disclosure (FMD) calculations;
- Reviewed the service agreement and partnership with Trees for Cities and the implementation of the "tree planting" claims.

Conclusions

Based on the information provided by npower and our activities outlined above, nothing has come to our attention to suggest that the 'the 'Cleaner Energy Fix' and 'Go Green' tariffs do not meet their stated environmental claims.

Gavin Tivey
Principal Consultant
EcoAct UK
October 2019





INTRODUCTION

Scope of Work

The management team of npower Ltd engaged us to provide continued third-party verification of its domestic REGO and RGGO/offset backed supply products, 'Cleaner Energy Fix' and 'Go Green Energy Fix' tariffs, in relation to their environmental claims.

We conducted independent verification of npower's design and management of the above tariffs and of how they fulfil these environmental claims.

The verification was structured into the following sections:

- a) An audit of the system (processes, people, software) that npower designed and operates, to ensure that the environmental claims of the products are met through the appropriate handling, management and redeeming of REGO and RGGO certificates.
- b) Analysis of the interaction between the 'Cleaner Energy Fix', 'Go Green Energy Fix' and "Business Renewable" products to minimise risk of double-counting or contradictory claims.
- c) Review of the products' Fuel Mix Disclosure (FMD) calculations, advising on product specific FMDs and recommendations to minimise the risk of accidental double-counting of renewable energy.
- d) A review of the service agreement and partnership with Trees for Cities and the implementation of the company's "tree planting" claims.

In addition, we reviewed the product control documentation and operational procedures for carbon offsetting management and communication.

Our Verification Statement, above, should provide customers of these npower tariffs with additional confidence their environmental claims are fairly stated and free from material error and that npower appropriately records, monitors and validates these.

Description of activities

We worked closely with npower's Domestic Products and Proposition team, reviewed internal documentation related to the 'Go Green' tariff, and conducted teleconference interviews with multiple people involved in the design, operation and marketing of the product and its related processes.

For the audit of the 'Go Green' tariff system we have:

- Reviewed the Tariff Approval Request (TAR) and Product Control Document (PCD) for the tariff.
- Reviewed the tariff briefing document and sales script to ensure the correct messages are relayed to customers.
- Ensured consistency throughout the marketing materials and messaging.



- Assessed the sales management position regarding the fuels cap of 100% electricity and 15% of gas matched with certificates.
- Assessed the risk of exceeding the fuels cap and the mitigation methods in place.
- Reviewed the REGO and RGGO position tracking system and assessed the risk of any shortfalls in certificate procurements.
- Interviewed staff across the implementation and the management of the product.
- Assessed the standard and methodology applied to carbon offsetting and carbon neutrality.

For the audit of the agreement with Trees for Cities we have:

- Reviewed the agreement and subsequent amendments between npower and Trees for Cities.
- Reviewed the marketing and messaging around the agreement with Trees for Cities and ensured this is consistent with the agreement.
- Assessed the requirements of Trees for Cities under this agreement.

For the analysis of the interactions between these tariffs and npower's Business Renewable product we have:

- Ensured the 'Go Green' tariff is considered in the 'REGO book' used to maintain the position of the Business Renewable product.
- Reviewed npower's approach to product specific fuel mix disclosure (FMD).
- Assessed the impact of the 'Go Green' tariff and the planned approach for the 'Go Green' tariff.
- Assessed the management of npower's RGGO position and its supporting datasets.



TARIFF DESIGN AND OPERATION

Design of the Go Green tariff

1. The versions of Go Green Energy Fix launched prior to July 2019 uses Renewable Energy Guarantees of Origin (REGOs) and Renewable Gas Guarantees of Origin (RGGOs) to evidence its environmental attributes of 100% green electricity and 15% green gas supply respectively.
2. The Go Green Energy Fix launched after July 2019 uses Renewable Energy Guarantees of Origin (REGOs) to evidence its environmental attributes of 100% green electricity and claims carbon neutrality for its domestic gas consumption through the use of offsets certified by Climate Care.

For each customer on each tariff, npower will also pay Trees for Cities to plant a tree in the UK.

Evidencing 100% renewable electricity

OFGEM issues one Renewable Energy Guarantee of Origin (REGO) certificate to generators per megawatt hour (MWh) of eligible renewable output produced. The certificates are administered in the OFGEM REGO Registry, can be traded independently of the corresponding unit of electricity and can be transferred to other parties. In effect, their owner can claim the environmental attributes of the underlying electricity.

npower and other licensed electricity suppliers primarily use REGOs to disclose to customers the renewable proportion of their fuel mix and the generation types used to generate the electricity supplied. This Fuel Mix Disclosure (FMD) is a condition of supply licences and it is calculated for the 12-month period from 1st April to 31st March.

The total REGOs held by npower in their Registry account on 1st July are redeemed by OFGEM, i.e. taken out of circulation. The total REGOs correspond to the total volume of renewable electricity npower can claim to have supplied to customers during the previous FMD period.

The REGO position is managed by npower through several interlinked datasets, from sales forecast to actual consumption. npower has aligned the evidencing of 'Go Green' tariff customers with the FMD period and has ensured that there were sufficient REGOs in their OFGEM registry on 1st July 2018 and to match against the 'Go Green' tariff electricity consumption over the corresponding supply period in addition to the total consumption of customers on the Business Renewable product.

Evidencing 15% renewable gas

RGGOs are issued by the Green Gas Certification Scheme¹ for every kWh of biomethane or 'green gas' that is fed into the grid within the UK. RGGOs provide a means of tracking the commercial transaction of green gas, evidencing the flow of green gas to customers. Due to the relatively juvenile status of the Green Gas Certification Scheme and limits on the amount of RGGOs available

¹ <https://www.greengas.org.uk/>



on the open market, npower has committed to matching 15% of gas supply under its 'Cleaner Energy Fix and 'Go Green Energy Fix' tariffs (prior to July 2019) with RGGOs.

npower match RGGO's against customer consumption within the FMD period to align certificate handling processes to those in place for REGOs. In 2018, the terms and conditions for this tariff were amended to allow the gas used to be matched to any valid RGGOs rather than those generated during the consumption FMD period.

REGO and RGGO volumes

To minimise the risk of there being insufficient renewable certificates to cover customer supply, the Renewable Energy Management (REM) department within npower have set a notional cap on the amount of REGOs and RGGOs that could be comfortably secured for the 'Go Green' tariff. The cap was set in 2018 at 81 GWh for electricity and 49 GWh for gas, and has not subsequently been amended. REM 'ring-fence' the requisite volume of certificates for the 'Go Green' tariff, minimising the risk of double counting with the Business Renewable product. Following an analysis of average household consumption, the expected demand for the tariff, and a benchmarking exercise against competitors, npower committed to matching 100% of electricity and 15% of gas supplied under the tariff.

To ensure supply under the 'Go Green' tariff does not exceed this pre-defined threshold of certificates, npower have implemented a flexible position management approach, (previously a 'total fuel sales cap' was used to indicate the maximum number of customers the tariff could supply to ensure that the environmental claims of the tariff could be adhered to.)

The position approach is managed via a Monthly Position Report produced by the Settlement and Industry Risk division and managed in a monthly meeting led by the Retail Energy Management, (REM) Team. The position report consists of the inputs from Product Development, Planning, Hedge Modelling and the SAP BI team to managing any risks.

Evidencing carbon neutral gas

From July 2019, npower's 'Go Green Energy Fix' tariff offerings state that the related domestic gas consumption is "carbon neutral". The calculations and offsetting process in the PCD documentation have been stated as aligned to PAS 2060, an international industry standard for claiming carbon neutrality. The process, including the calculation of total required offsets, is managed and stated as PAS 2060 aligned by Climate Care, not by EcoAct.

As part of EcoAct's verification of this process we have assessed the following:

- Domestic gas consumption calculation methodology and
- Emission factor source for emissions from domestic gas consumption

Agreement with Trees for Cities

There is an aspect of additionality to the 'Go Green Energy Fix' tariffs. The terms of these products states that npower will donate to Trees for Cities for every customer on a 'Go Green Energy Fix' tariff for a minimum of 90 calendar days. This donation will pay for the planting of one tree and the subsequent cost of the associated independent verification. npower will make donations on a



quarterly basis based on reporting of live fuel sales in January, April, July and October for the previous quarter of the Fuel Disclosure Period.

Trees for Cities is an independent charity who work with urban communities to plant trees in deprived parts of cities to grow stronger neighbourhoods, enhance urban landscapes and improve people's health and happiness.

To meet this agreement, npower emails Trees for Cities with quarterly sales updates in January, April, July and October for the previous calendar quarterly reporting period. Based on the sales volumes, Trees for Cities raise an invoice to npower, representing the number of trees to be funded. Trees for Cities to provide an annual impact report to npower in July of each year, reporting on the trees planted during the previous 1st April to 31st March period (in alignment with the REGO and RGGO certificate matching) and plans for future planting during the subsequent annual cycle. As all trees must be planted during a planting season, typically 1st October to 31st March, net sales reported to Trees for Cities in April can be deferred to the next planting season at the latest. The number of trees planted is verified by Carbon Smart using a limited verification assessment, against an Evidence Pack created and maintained by Trees for Cities. Carbon Smart is appointed by Trees for Cities.

Although not applicable to this verification period it's worth noting that prior to April 25th 2018 the agreement with Trees for cities was that npower would donate one tree per fuel rather than one tree per tariff.

Review of the operation of the products

We have reviewed the processes and controls in place for the operation and management of the 'Go Green' tariffs.

Effective operational supporting documents are in place:

- The TAR document outlines the roles and responsibilities of each department involved in the operation of the tariff. Specifically, this document highlights the impacts of product operation on the REM team and Generation Services Operation (GSO) function regarding REGO and RGGO volume hedging.
- The PCD provides detailed descriptions of the risks and issues of product operation on each department involved. This document also contains information for sales teams and key marketing messages for customer communications.
- Changes to the PCD and other documentation are managed through a defined process by the Product Delivery team.

The Sales team is regularly briefed, and their knowledge of the product is regularly assessed:

- When a new product briefing is issued, (e.g. to address changes in the PCD), this is shared with front (sales) and back (e.g. billing, customer services) functions.
- Each member of the sales team (voice agent) is provided with the campaign brief sales script.



- All voice agents receive training on the tariff in team 'huddles' prior to any conversations with customers.
- The sales script document contains all relevant information on the environmental claims of the tariff and provides suitable answers to frequently asked customer questions.

The number of sales is closely forecast, tracked and monitored:

- A weekly product report is created detailing the previous week's product sales which is compared to and combined with reports from the sales and pricing teams.
- Sales are included in the REGO and RGGO books maintained by the renewables team.
- npower can update the tariff by re-launching it with a new fixed period and amended terms and conditions as required.
- The tariff can be withdrawn from sale within 24 hours should this be necessary.

Risk mitigation:

- Product risks are identified and addressed in npower's product PCD and the 'Go Green' Energy Fix Risk Mitigation document.
- Previously the product was managed via a fuel sales Cap but due to it affecting npower's pricing agility for its domestic portfolio, npower has instead implemented a Flexible position management approach. This is the second year that the flexible position management has been in effect.
- This position is managed via a Monthly Position Report produced by Settlement and Industry Risk, managed in a monthly meeting led by the Retail Energy Management, (REM) Team.
- Additional risks associated with the product relate to the finite nature of renewable energy guarantees of origin, particularly for RGGOs), the potential cost of the same, and the risk of customers switching supplier after certificates associated with their product have been purchased by npower.

Forecast supply volumes are tracked:

- Weekly forecast volumes of electricity and gas supply to 'Go Green' tariff customers are produced and fed into the tariff position tracking report.
- Seasonal variation in consumption is applied to the forecast volumes.
- Supply is forecast out to the end of the fix term contract of that customer.

Actual supply volumes are tracked:

- Monthly supply volumes for both utilities and all tariff IDs are produced and fed into the tariff position tracking report.
- Variance checks are performed on the forecast and actual supply volumes and significant discrepancies investigated.

REGO and RGGO forecast and actual volumes are tracked:

- Forecast product sales are captured in the REGO and RGGO position management reports.



- REGO certificates that are 'ring-fenced' for the 'Go Green' tariffs are transferred to npower's OFGEM registry. This is reflected in the tariff position tracking report.
- RGGO certificates are transferred in batches. As these are received by npower, the appropriate volume is reflected in the tariff position tracking report.
- Actual supply volumes of electricity and gas are tracked against REGO and RGGO volumes respectively using a proportion calculation certificates remaining.
- **Please Note:** npower's internal audit identified a risk that the weekly SAP report used by Settlement and Industry and Retail Energy Management is unable to be verified as fit for purpose due to lack of logic description and control documentation. This risk has been accepted and a due date has been set for mediating action.

Avoidance of double counting of REGO volumes:

- REGOs for allocation to the 'Go Green Energy Fix April 2021' tariff are 'ring-fenced' in npower's 'REGO book' (the document used to track all REGO certificate volumes for each FMD period).
- npower will produce a 'product specific' FMD table for the 'Go Green' electricity supply volumes, removing the risk of accidental double counting of renewable supply.

IT and data security are effective:

- The files used to manage the REGO position are locked and password protected. Only personnel within the business unit responsible have access to the files.

A contingency clause is in place:

- A "subject to availability" clause is written into the customer terms and conditions of this tariff to apply in the unlikely event that npower is unable to source sufficient REGOs, RGGOs or offsets by the 1st July following the preceding FMD period to the end of March.
- Amendments to the customer terms and conditions of subsequent iteration of the product account for the longer validity period of RGGOs when compared to REGOs.

Purchasing and marketing accuracy of carbon offsets:

- Forecast and actual volumes are used to determine 100% of consumer gas consumption.
- Government recommended methodology and emission factors used to calculate carbon emissions.
- Contractual agreement in place with Climate Care to secure a fixed unit price.
- Ability to access additional offsets beyond this figure should customer supply exceed upper boundary of forecasted volume.
- The PCD outlines the various training and materials available to sales teams. This includes accurate details on what offsets are and the basics of how they have been calculated.

Retirement of offset credits:

- Climate Care calculates the amount of domestic gas supply related emissions on behalf of npower



- Climate Care manages the emissions offset process and retirement of offset credits on behalf of npower.



RECOMMENDATIONS

2018 Recommendations

The recommendations from our 2018 assurance and npower’s response are detailed below.

| No. | Stages | Description / Comments |
|-----|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Recommendation | Identify any risks related to the forthcoming merger in the product’s risk management documentation. |
| | Action | The npower and SSE domestic supply business are merging, subject to regulatory approval. This could be both an opportunity (through a larger domestic market) and a risk (through the product being superseded by a new product portfolio in a new company). npower should consider and document these risk as any sudden changes to the product and its additionality could represent a publicity risk for npower and a funding risk for Trees for Cities.. |
| | Status | Closed; merger no longer going ahead |
| 2 | Recommendation | Monthly and annual position validation document for RGGOs |
| | Action | As per our recommendations for other npower products, a document should be produced monthly detailing the status of the RGGO positions over time. This is particularly pertinent given the change of terms and conditions for future iterations of the ‘Go Green’ product related to the RGGO validity period. This document may be used to identify business risk in REGO and RGGO volumes, whilst also acting as an audit trail for certificate transfers during the verification process. |
| | Status | Closed, recommendation actioned. |
| 3 | Recommendation | Conduct half-yearly internal audits |
| | Action | To ensure that the ‘Go Green’ products are operating in accordance with the procedures and processes outlined in the TAR and therefore in line with the assurance from EcoAct, we recommend that npower conduct an internal audit during the FMD period. If any discrepancies are found, corrective action should be taken, the implementation of which could be reviewed by EcoAct during any subsequent assurance engagement. |
| | Status | Closed. Refer to 2019 Recommendation 2. |
| 4 | Recommendation | Implement quarterly review of appropriateness and effectiveness of the tariff fuels cap. |
| | Action | Given the strong sales of the ‘Go Green’ tariff and its potential to exceed take-up expectations, we recommend that the “conservative” tariff fuels cap is kept under regular review. We also note that there are a few concerns about the availability of RGGOs. Although tariff take up is monitored weekly, we suggest that the appropriateness and effectiveness of the fuels cap itself is reviewed at least quarterly. High demand for this product could be used to support further development of an npower ‘Go Green’ tariff “suite” and to send a strong market signal about demand for RGGO backed green gas, which may positively influence supply availability. |
| | Status | Closed, recommendation actioned. |



2019 Recommendations

1. Carbon neutrality reference

Carbon neutrality is frequently referenced throughout the updated PCD, both internally facing and customer facing through Section 4: Customer Communications. In EcoAct's opinion, a product can be called 'carbon neutral' should that product be certified PAS2060. Should this not be the case, such terminology can be misleading to the customer. We notice that npower has 'aligned' aspects of the processes of PAS2060, but certification to this standard has not been achieved.

We recommend 2 options:

1. Achieve PAS2060 certification for the 'Go Green' tariff
2. Remove references to carbon neutrality in environmental claims and replace with: '100% of Greenhouse Gas emissions from consumer gas use on this tariff are offset'.

Please note that should this recommendation not be addressed, EcoAct may not be able to continue to assure the 'Go Green' tariff against its current environmental claims.

2. Update all references to EcoAct

In 2018, Carbon Clear was acquired and is now referred to as EcoAct. In all external communications we are referred to as EcoAct. However, in some older internal documents (e.g. the Go Green Energy April 2021 PCD v1.1 BASELINED) we are referred to as our old trading name of Carbon Clear.

3. Continuation of annual internal audit

The internal audit for the period issued 14/08/2019 provided useful insight into the internal operating procedures and areas of risk within the npower's domestic energy processes. We recommend that this internal audit process is continued each year to identify any emerging areas of risk as the product processes develop. Actions from the audit should continue to be shared with EcoAct along with progress towards these.

4. Plan for the REGO management implications of npower's corporate restructure with E.ON

It is EcoAct's understanding that the proposed corporate restructure of npower and E.ON could have implications for the availability of REGOs being sourced through Innogy and PPAs. We recommend that the npower team plan for this change in operating entities as it currently manages a combined REGO book for both its business and domestic renewable products, with a potential risk of reduced REGO supply for these products.

5. Document all reporting process and create a Specification Document for all processes

Internal Audit identified instances where specification documents for code logic or control documents describing user processes for data extracts and reporting processes are not present (Internal Audit finding 4). The reports that are run to monitor data and manage this process were created by an external contractor who is no longer working with the business. The lack of a process control document outlining the report parameters and logic means there is a risk associated with these reports if they were to malfunction as the data sets may not be consistent. We recommend that each report has an accurate logic and process control document associated with it so that all data remains consistent.



CONCLUSION

We have reviewed the design of the 'Go Green' tariff and the related processes and controls in place. Based on the information provided by npower and our audit of that information, nothing has come to our attention to suggest that the 'Go Green' tariff does not meet the environmental claims stated in the tariff description. We are satisfied that:

- The management and operating procedures of the tariff are designed so that the environmental claims of the tariff are adhered to;
- The agreement with Trees for Cities is robust and in line with the product offerings;
- Procedures are in place to ensure there is no double counting of certificates with the Business Renewable product.

It is EcoAct's opinion that the customers of the 'Go Green' tariff are receiving the supply offered to them within the terms and conditions of the tariff. Our assurance certificate is intended to give confidence to any existing or potential customer regarding the renewable nature of their supply.

We propose to revisit the 'Go Green' tariff in quarter three of 2020 to again assure its operation. In doing so, we will be able to verify that the appropriate volume of REGO and RGGO certificates were redeemed for the FMD period 1st April 2018 – 31st March 2019, that Trees for Cities are meeting the requirements of the agreement, and that double counting has been avoided with appropriate calculation of product-specific FMD tables.



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We believe that climate change, energy management and sustainability are drivers of corporate performance and we seek to address business or organisational problems and opportunities in an intelligent way.