



**Legal, Regulation and  
Compliance**

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Wednesday, 30 April 2008

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Ofgem  
9 Millbank  
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By E-mail: [mark.feather@ofgem.gov.uk](mailto:mark.feather@ofgem.gov.uk)

Dear Mark,

**Re: Open Letter, Proposed Guidance – Environmental Issues and the Code Objectives**

Thank you for the opportunity to comment on the open letter detailed above. This non-confidential response is on behalf of the Centrica group of companies excluding Centrica Storage Ltd and may be placed on the Ofgem website and in the Ofgem library.

British Gas Trading ("BGT") is supportive of the principles underlying the proposed guidance; i.e. that when considering modifications to industry codes, the industry should carefully evaluate and have regard to the environmental consequences of change. However, we have significant concerns about the approach and the proposed guidance set out in the open letter.

Ofgem has initiated a governance review in the industry; whilst this is in the early stages, it is clear that the review scope is extensive and the potential impacts likely to be wide ranging. BGT is contributing to this process and believes that all changes should be made as part of a carefully thought through package of measures. With this in mind, BGT does not believe it is appropriate to make piecemeal changes in the area of governance pending the outcome of the review.

In our view the proposed guidance constitutes a significant change to the ways in which code panels address their duties. In each case, when evaluating a modification proposal ("Mod"), and reaching any required recommendation, the test required (of the panel) is whether the Mod better facilitates the relevant objectives of that code. At present, we do not believe that the relevant objectives include an environmental test, and hence we are concerned that

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recommendations or decisions made, which are made other than against the required test, may be open to challenge.

BGT believes that in order for proper cognisance to be taken of the environmental impacts, and for this to be fully embedded in the subsequent code decisions, a change to the relevant objectives of the codes is likely to be required.

If, as part of the Governance Review, the conclusion is reached that such a change is desirable, this should be taken forward through the proper channels and cascaded appropriately through all relevant processes and documentation.

BGT also has a general concern as to the relative priorities to be given to the economic and efficient objectives vs. the environmental impacts under the proposed approach. We would wish to be assured that Ofgem will continue to give proper weight to the formal code objectives.

Moving to specifics, in terms of the actual guidance proposed, it is not logical that only those Mods expected to have an impact on the efficient and economic operation of the network should be subject to environmental evaluation; and, in turn, that this should then be limited to an increase or reduction in greenhouse gases rather than wider environmental considerations. BGT believes that if a proper process is followed to amend the relevant objectives appropriately, then such anomalies would be addressed.

In considering how, under the guidance, the economic costs and benefits of greenhouse gas increases or reductions etc should be evaluated, it is far from clear which carbon prices are to be used and who is to conduct the analysis, though there is a suggestion that the panel itself may need employ the relevant expertise.

As currently drafted, we assume a Mod report would be presented to the panel, for the panel to assess whether the test of a "network operation" impact is met. The panel will then request additional analysis to be carried out as required, a further report being presented to the panel in due course for a recommendation. In our view, this would be expected to add at least a one month delay to the Mod process, even if the additional report reverts to the next panel. Further considerations include a lack of clarity on who will carry out the additional analysis, which carbon index would be used or how greenhouse gases other than CO<sub>2</sub> would be priced, all of which would need to be resolved.

Again, these issues could be addressed if the environmental assessment was properly built in to the relevant objectives and Mod processes.

In addition, the proposed guidance does not cover how conflicts between the environmental evaluation on a Mod and the existing relevant objective on network operation should be addressed. It is also unclear how quantified effects (CO<sub>2</sub>) and non quantified effects (network operation) would be balanced. This will be particularly important where reports on groups of similar Mods, are presented for consideration.

Overall, BGT is supportive of the principle of taking account of environmental impacts during the evaluation of Mods. However, we believe that this needs to be properly managed and formally built into the industry governance and associated processes to ensure delays are not created and inefficient decisions avoided.

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We propose that this debate should be included within the scope of the governance review, and if the change is required, implemented from the top down, cascading through the Mod process.

We trust these comments have been useful, but if you would like to discuss any of these points in more detail, I should be happy to help.

Kind regards,

Yours sincerely,

*By e-mail*

Alison Russell  
Senior Regulation Manager, Upstream Energy